THE ONLY WAY OUT

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I

CRISIS

SINCE the World War of 1914 to 1918 British Capitalism has undergone a progressive decline. In some of the main branches of industry, even in the best post-war years, production has not attained the pre-war level. The output of coal, for example, which in 1913 was 287,000,000 tons, was only 259,000,000 tons in 1929. The estimated consumption of raw cotton in 1913 was 2,105,000 tons, and in 1929 only 1,488,000 tons. The struggle for the world markets among the imperialist groups has led to the gradual squeezing out of British exports, especially by the United States, so that the volume of exports from Britain in post-war years has not exceeded 80 per cent of the pre-war level. The decline of British Capitalism is clearly expressed in the lowered proportion of Britain's share in world production; in coal, in 1913 the British proportion of world output was 23.3%, while in 1929 it was only 18.8%; the corresponding figures for pig-iron were 13.2% and 7.8%; for steel, 10.2% and 8.1%; for cotton consumption, 18.6% and 10.8%. Unemployment on a scale unknown in pre-war times has been a permanent feature of post-war British Capitalism.

The world economic crisis of capitalism which developed in 1929 shook the already weakened structure of British Capitalism to its foundations. During the first two years of the crisis industrial production fell by 30%. In coal production, Britain, in 1931, was forced back to the level of 1900, in pig-iron, to the level of 1860. Exports dropped by 50% as compared with the period before the crisis. Unemployment mounted quickly to close on three millions. In September, 1931, the British Government was forced to abandon the gold standard, in spite of all the "heroic measures" it had taken to save it.

Capitalist economists, seeing the decline of British Capitalism and the continuous deepening of the crisis, are bringing forward a number of theories which purport to explain the cause of the crisis and to show how capitalism can overcome it. All these theories, which reflect the interests of various groups of capitalists, are designed to provide the capitalists with theoretical arguments for finding a way out at the expense

of the workers. They are, in fact, a defence of capitalism; they cover up all the negative, cramping features of capitalism, and try to create the illusion that there is a possibility of British Capitalism's return to "normal times."

The unmasking of these theories is an extremely important task for the working class. British Capitalists, like the capitalists of other countries, are carrying on a tremendous struggle for the capitalist way out of the crisis at the expense of the working class and the workers and peasants of the colonial countries. As a result of two years of labour rule, which was introduced in 1929 to help British Capitalism to find a way out of its post-war decline, and of nearly a year of "national" government, which took over the reins as the crisis grew more acute, the position of the working class has grown immeasurably worse. By reducing the cost of production at the expense of the working class, the capitalists are attempting to increase their profits and to obtain new competitive power in the world's markets. The lowering of wages is going ahead steadily, and is affecting wider and wider sections of the working class; vicious reductions have been made in all forms of social insurances and social services, and every month sees new and more vicious attacks on the standard of living of the working class. The fall of the pound sterling by 25 to 30% in relation to gold currencies increases the competitive power of British Capitalism at the expense of the workers, in so far as it necessarily involves higher prices—a result which has only been partially concealed by the fall in gold prices during the period since September, 1931. The protective tariffs and the quota schemes for grain inevitably mean higher prices in the home market and a further reduction in real wages.

All of these measures, as well as the mobilisation of £45,000,000 in gold from India—representing the plunder of the Indian peasantry—have led to an apparent improvement in the position of British Capitalism, as compared with other capitalist countries, since September, 1931. This "improvement"—itself only relative and temporary—has been based on the lowering of the standard of living of the working class of Britain. Each step taken by British Capitalism in its struggle for markets—increasing tariffs, artificially bolstering up exports—is being answered with similar measures by the capitalists of other countries. "Protective" walls are rising rapidly throughout the world, the export of British goods to other markets is being made more and more difficult by counter-tariffs, import quotas and exchange restrictions, while the competition of

foreign goods continues unabated. In spite of the lower value of sterling, British exports continue to decline. The struggle between capitalist countries for markets and sources of cheap raw material is becoming continuously sharper. This struggle is taking on more and more the character of open conflict, leading to war. The war which Japan is carrying on in the Far East is more and more clearly threatening to become a general imperialist war against the Soviet Union. The dominant sections of capitalists in every country are more and more openly putting forward imperialist war as a way out of the crisis.

A new imperialist war means only new appalling sufferings for the working class throughout the world. Every measure by which capitalism is attempting to improve its position means a further progressive lowering of the standard of living of the workers. For the working class, there is only one solution—the only solution which can solve the contradictions arising from a system in which the productive forces are the property of a small class and are set in motion only in the interests of that class. This solution is the overthrow of the present system, the overthrow of the rule of the capitalist class, and the establishment in power of the working class. Only this way out can put an end to worsening conditions, steadily mounting unemployment, and imperialist war, and open the way for a rapid rise in the standard of living of the working class.

There is a well-known passage in the preface to *The Critique of Political Philosophy*, in which Marx indicates the position that is now facing the working class throughout the world:

> "At a certain stage of their development, the material forces of production in society come in conflict with the existing relations of production, or—what is but a legal expression for the same thing—with the property relations within which they had been at work before. From forms of development of the forces of production these relations turn into their fetters. Then comes the period of social revolution."

The existence of the Soviet Union is in itself a proof that the period of social revolution has begun. The present crisis shows the productive forces in the sharpest conflict with the property relations of capitalism all over the capitalist world. Any theory or "solution" of the crisis which either ignores or tries to evade these fundamental facts must be futile and meaningless.

Britain is particularly affected by the crisis. It is the classic country of capitalism; the property relations in Britain are peculiarly burdensome, owing to the early growth of capital-

ism; and they are further complicated by the fact of Britain's dependence on tribute from a vast empire. The crisis has made the contradictions more evident, the conflict deeper.

This is why the flood of capitalist books and pamphlets on the crisis has been so eagerly absorbed, and at the same time why so many readers put down these publications with a feeling of dissatisfaction and helplessness. The "experts" in whom they formerly put their trust no longer satisfy them: they feel instinctively that the real situation has not been touched; they see contradictions, confusions, and no solution. Crisis breaks through accepted traditions, tears down the veils from the holy places and reveals their emptiness. Crisis brings questionings, searchings, the desire for understanding of the real forces at work. Not knowledge for its own sake, but knowledge for action.

This book has been written for those who want the knowledge on which they can determine their action, in face of the only alternatives opened up by the crisis—a temporary way out for capitalism at the cost of more intense exploitation and suffering for the workers and colonial peoples, or a final way out for the workers, bringing freedom for themselves and for the subject peoples of the Empire.

II

THE PRICES REGULATION THEORY

> "When I have said quite seriously, as I have done on a number of occasions, that the problem of the price level is the most important single problem of our age, I have been accused either of exaggeration or flippancy.
>
> "What about trade depression in the basic industries, unemployment, labour unrest, class hatred, high taxation and the rest? *My answer is that the problem of the price level is fundamental to a solution of them all.*"
>
> Sir Josiah Stamp. *Papers on Gold and the Price Level* (page 3).

This view is repeated in dozens of textbooks, works and articles on the crisis, and in the financial columns of the Press. The problem of the age—the age of acute economic crisis—is reduced to the problem of how to secure a stable price level. What justification is there for the assumption that the problem

of the price level is "fundamental"—a statement which can only mean, and is taken by its supporters to mean, that falling prices are the *cause* of economic depressions?

The assumption is based on the fact that falling prices coincide with bad trade and rising unemployment. But is this a sufficient reason for assuming that the change in prices is the *cause* of the change in trade and employment?

Let us imagine the reasoning of a child whose curiosity is aroused by the variations of temperature in his bath water. His mother, who has been properly trained in the care of infants, first puts cold water into his bath, and then puts in a bath thermometer. The infant's attention is riveted on the thermometer, and he does not notice his mother's comings and goings—as far as he is concerned, she is merely adding more water. The infant observes that the spirit in the thermometer begins to move; he leans over to look more closely at it, and touches the water. As the spirit rises in the thermometer he feels the water growing warmer. Day after day the same thing occurs; gradually an association is formed in his mind; his intelligence develops rapidly, and he begins to record the facts he observes. He draws up tables, puts them in diagram form, and proves conclusively to his visitors that the rise in the thermometer always coincides with the rise in the temperature of the water. No one disputes the facts which he has observed, and in due course he writes a treatise on the subject. In this treatise, however, he not only states the facts, but draws a conclusion of far-reaching importance—that the cause of changes in temperature is the movement of mercury in thermometers, and that the "fundamental problem" of temperature changes is the problem: how to regulate rises and falls of mercury in thermometers?

The reasoning behind the assumption that price changes are the *cause* of changes in trade and employment is no less fantastic; such reasoning, like the child's, ignores the essential facts and is only in any way plausible because the essential facts are suppressed or brushed aside without argument. The leading capitalist economists, and the publicists and politicians who follow them, inevitably concentrate their attention on facts which have an immediate repercussion on themselves and the section of the population with which they are associated, and, consciously or unconsciously, they ignore or regard as secondary other facts which do not directly affect them.

It is obvious that those associated with companies producing raw materials would regard a fall in the prices of raw materials

as a definite blow to industry, it would open up a prospect of lower profits and dividends, restriction of production and possibly the closing down of concerns in which they were interested. But they would not be the only section which would take this view. Merchants holding stocks bought at high prices would face loss; brokers working on commission would see their incomes fall; financiers who had lent money to the raw material producing companies or to the merchants and brokers concerned would begin to feel anxious.

It is quite clear, on the other hand, that a fall in the price of raw materials is not regarded by a manufacturer as a serious and almost fatal event. To him it means lower costs and, at least for the moment, a higher margin of profit. Even if he looks ahead to the fall in the price of the finished products which may result from the drop in the price of raw materials, it does not follow that the prospect will be unwelcome; on the contrary, his margin of profit may be retained, the cheaper product may find a wider market and his turnover may increase. Such a manufacturer will find it very difficult to believe that a fall in the prices of raw materials is the fundamental cause of crisis; he may even argue (as the Lancashire cotton trade argued after the War) that a fall in raw material prices is a necessary condition of increased business activity.

It is therefore very far from self-evident that a fall in prices means always and for every one a period of bad trade and unemployment. In fact, the whole extension of capitalism was linked with the continuous reduction of production costs by the use of machinery, and also the reduction of prices, which enabled machine-made products to displace the products of the former hand industry over a wider and wider field. Each successive reduction in costs (effected through improved technique, in other words, reduction of labour costs per unit of product) was the basis for widening the market for machine-made products. Even now we are told by the same people who support the price-regulation theory that a reduction in costs of production and the consequent lowering of prices for British products is the only way to develop Britain's export trade.

How can the two sets of facts be reconciled—the fact that falling prices are associated with bad trade, and the fact that falling prices are essential for extending trade? The explanation can only be that both price and trade changes depend on some other factor. This other factor must be one which explains both sets of facts.

If we consider the cases in which falling prices lead to extended trade, we see that they are all linked with competitive displacement. British exporters cut out other exporters by lower prices; machine-made production cuts out hand production by lower prices. It is true that lower prices, besides merely altering the sellers, may result in a higher volume of goods being sold; the market is widened, because the lower price enables purchasers to buy more, or more purchasers to buy. But this effect does not always follow; cheaper motors may bring a much wider sale, but not even a substantial reduction in the price of coal will produce much change in the *total* demand for fuel—even the starving will not eat coal. And in these cases, also, the element of displacement plays a large part; cheaper coal may displace other forms of fuel; motors may displace other forms of transport.

In what circumstances do falling prices lead to a decline in trade? It is impossible to imagine any circumstances in which the cheapening of an article lowers the demand for it. And yet statistics can be produced to show that falling prices coincide with bad trade. If we consider this in relation to competition—the factor which explained why lower prices bring increased trade—it is not difficult to find the explanation. Lower prices bring increased trade for one competitor against others, unless the other competitors also lower their prices. When all competitors lower their prices simultaneously no one of them gains.

In what circumstances, then, do all producers of a particular article, or of a whole group of articles (such as raw materials for industry), lower their prices simultaneously? Only when all of them find their production increased beyond the existing capacity of the markets, and are forced into an all-round cut-throat competition in a vain effort to dispose of their products. The fall in prices is merely an indication of the state of the market and is in no sense a cause of it. The primary factor, the "fundamental" problem, is not the change in the price level but the development of production beyond the capacity of the market. It will be necessary at a later stage to examine what exactly is meant by the capacity of the market; for the moment the fact of over-production must be brought out clearly by quoting Sir Henry Strakosch's index of world stocks of important commodities (*The Crisis*, published as a supplement to *The Economist*, of 9/1/32). One year's consumption at the current rate is taken by him as 100, and on this basis world stocks, which in the middle of 1929 were 84

(roughly ten months' supply), had risen by the middle of 1931 to 230 (roughly twenty-seven months' supply).

But the fall in prices (due to competition arising from the development of production beyond the capacity of the market) is certainly one link in a chain of factors leading to the deliberate restriction of production with the consequent unemployment. Prices fall because the market cannot absorb the products available; the fall in price narrows and perhaps absolutely wipes out the margin of profit; and the capitalist individual or group concerned either stops production altogether or tries to make an arrangement for the general restriction of production. This, in turn, creates, or rather is identical with, a reduction of employment, and it is for this reason that falling prices can be shown to occur at the same time as unemployment.

But to argue from this fact that therefore falling prices are the "fundamental" cause in the whole process, and that crises can be prevented by preventing prices from falling, is to ignore the fact that the process does not always follow from falling prices, but only from falling prices due to the development of production beyond the capacity of the market. The problem is, therefore, not one of price regulation, but of regulation of production. Nevertheless, a whole pyramid of argument and economic theory has been built up by capitalist economists on the basis of the assumption that the fundamental problem is one of price regulation, and that the only solution is to be found in some method of regulating prices. It is therefore necessary to examine the various methods proposed and to see how far they could secure price stability. The question of the regulation of production—whether any regulation sufficient to avoid crises could be secured under the existing system—is dealt with in Chapter V.

The problem of price regulation is not approached by the economists of capitalism as a question of State power. It is tacitly assumed that the fixing of prices by legislation is impossible, or undesirable; in any case, suggestions of State control of prices are only made in conjunction with schemes of State credit or State planning, in which the regulation of prices plays only a secondary role—a safeguard against the raising of prices. To those economists who regard price regulation as the fundamental problem the question is approached from the standpoint of regulation through the machinery of finance.

In the first place, there is the gold solution, with its variant in bimetallism—the promotion of silver to a rank equal to

that of gold, so as to increase the total supply of "standard measures" available. The theory is that it is not price changes in themselves that matter, but merely price changes in relation to gold. This theory is put forward by Stamp (*Papers on Gold and the Price Level*, pages 9 and 10), as follows:

> "I feel that, so difficult does the average man find it to think upon the subject as we wish him to think upon it, it would be an extraordinarily valuable contribution to the psychology of the subject were we to get into the habit of quoting the prices of things in some other commodity besides gold—either quoting it in wheat or tin or sugar or something else—in order that he could get the true nature of price. Because, if you tell people who say that there is a world-wide over-production, that the price of wheat as expressed in tin or copper has not changed at all, then you begin to introduce a new factor into their minds, attacking the common denominator of all they are thinking."

Stamp's argument runs: the factor of over-production is irrelevant; the way to realise this is to observe that prices have not changed as between one ordinary commodity and another, but only between all commodities and gold. In effect, it is the price of gold that has changed, and this is the main cause of the crisis.

Stamp, Pethick Lawrence, and a host of others point to the accumulation of gold in the United States and France, and argue from this to a scarcity of gold in the rest of the world which increased its price in terms of other commodities, and decreased the price of commodities in terms of gold. To the objection that the slump in prices affected the United States equally with if not more than other countries, Stamp replies that "the speed of a cycling club is the speed of its slowest member," and "the fact that one country has more gold than it either needs or is using is no protection at all from having the evil effects come back to it from those countries in which there is a real starvation in consequence."

But in what way does a "real starvation" of gold affect the price of gold? Take the case of Britain. Was Britain starving for gold in 1930 and 1931, and if so, why was gold required by the British Capitalists? Not for internal use, but to send abroad to meet the adverse balance of trade—an adverse balance due to the decline in Britain's export trade. The decline in trade was the result of world over-production and competition; and so once again we are led back to this factor as the basic factor. But even apart from this the argument is not sound. A rise in the price of gold or any other commodity from "scarcity"

presupposes that there are competing buyers who are not only willing but also able to buy. Britain could at any time have bought gold in the United States by the simple process of using the proceeds of sale of British exports to the United States to exchange for gold; but there was no point in doing this, because the gold was wanted precisely for the purpose of paying over to the United States. An increase in British exports was necessary, not the purchase of gold, and Britain was not in fact a competing buyer for gold. The same was true of all other countries which were "starving" for gold; it was the collapse of their export trade (due to over-production and intensified competition) which made them need gold, but this very collapse made them not effective buyers—they could not pay for gold.

On the basis of the theory of gold scarcity as the determining factor (in the sense that it causes the fall in prices already put forward as the fundamental factor) the "solution" put forward by Stamp (*op. cit.*, p. 31) is:

> "the systematic exploration of the possibilities of the more efficacious distribution of gold and exploitation of gold mines, of releasing non-monetary hoards of gold, of the more scientific use of gold as a basis of a more extensive purchasing power and credit; of the possibilities of international action and the functions of the Bank for International Settlements."

Even on the assumption that the scarcity of gold in general, or the scarcity of gold in some countries, was the determining factor in price changes and crises, the "solution" put forward by Stamp is completely utopian. To exploit gold mines more efficaciously means to produce more gold; but gold is a commodity like everything else, and has to be sold by the producing capitalist groups. If any country is in a position to buy gold—that is, if it can pay for it in exports not required to pay for the other imports it needs—it can perfectly well buy gold from the United States or France. But the countries which are in this position are precisely the countries which have surplus stocks of gold; the countries in which there is a scarcity of gold are those from which gold has been drained by the adverse balance of trade or by the absorption of exports in payment of interest on loans. Stamp's "solution" leaves this situation unchanged. His alternative of "the more efficacious distribution of gold" is equally futile; for the same reason, within the existing economic system such a distribution is impossible, and if it were carried out the drain would begin again and the same scarcity would recur.

The final suggestion put forward by Stamp is international action, through some form of international bank. But action for what, and by what method? Presumably, the international bank is intended to secure the more efficacious distribution of gold and the more scientific use of gold for credit. But could any international bank alter the situation in international trade which is the cause of the scarcity of gold in some countries and its superabundance in others? There is only one method, not indeed of altering the international trade situation, but of checking its consequences on the movement of gold. This method is the method of lending gold (or gold credits, i.e., credits available in some country which is on the gold standard) to the country which has an adverse balance of trade. This method, however, is not new; it has been applied in two outstanding cases recently, and its complete failure has been obvious. The Allied nations—that is, of course, financial groups in each country—systematically lent gold credits to Germany to pay the adverse balance, including reparations payments. But the whole method broke down because, to be effective, it would have had to be applied year after year on an expanding scale, and all that the lenders could get out of it was a request to increase their loans the following year. The bankruptcy of the method led to the slowing down and stoppage of the loans, and ultimately to frenzied *efforts to withdraw the capital lent.*

The second recent case was the loan from French and American bankers to British bankers, the object of which was to prevent the drain of gold from Britain in the summer of 1931. The enormous sum of £130,000,000 was lent, but it was rapidly used up, and the lenders saw no prospect of getting any return if they lent more; the method broke down and Britain was driven off the gold standard.

It would make not the slightest difference whether such loans were made by international banks or by national banks, so far as the ultimate effect was concerned. (In fact, an "international" bank is nothing more than a grouping of national banks for a special purpose). The same actual difficulties which made the loans necessary would also make them useless; the interest on them would increase the adverse balance of the country to which they were lent, and the effect of each successive loan would be to aggravate the position which it was designed to remedy. Once again the "solution" solves nothing.

Does this mean that the supply of gold in the world or in any particular country is entirely irrelevant to the question of

prices? The answer is that the supply of gold is sometimes relevant because of various laws and customs operating in "normal" times; and sometimes irrelevant, when times are not "normal". It is not necessary to go into all the details of the financial technique of credit and exchange which are normally based on gold, but the essential principles can be stated shortly and simply. An understanding of these principles will help to explain the limits of the influence of gold, and will also bring out the fact that Stamp and other writers who put all their money on gold have never got outside the financial technique of "normal" times. They are attempting, in effect, to apply a method which is useful enough in smoothing out ripples in a full tank to a situation in which the tank is empty.

In the early part of 1931 the currencies of all important western countries were on the gold standard. This meant that there was a common measure between the pound sterling, the dollar, the mark, the franc, and even the more fanciful breeds, such as the belga and the pengo; each of these units could be exchanged for a certain quantity of gold. In the sphere of international trade the importance of this common measure between currencies was that debts between bankers or merchants in different countries could be paid either in goods or in gold. The financial machine—the foreign exchange markets—cancelled out mutual indebtedness between two countries in so far as the value of mutual debts (i.e. all debts owed by the capitalists of two countries to each other) was equal; and if there was a balance left over, this balance was paid by a shipment of gold. It is obvious therefore that a supply of gold was necessary for the normal working of this system when any country had an adverse balance of trade.

The precise function of gold in the internal arrangements of each country varies according to law and banking custom. In general, the laws limit the issue of notes by banks in accordance with the quality of gold "cover" for the notes. But notes are only the small change of finance, which uses cheques and other devices for transferring money claims from one person or firm to another. There is no natural limit to the amount of "credit money" that can be created by the banks (the explanation of the process is given in the next chapter). But in each country there are rules of banking practice which set limits to the amount of banking credit issued. In effect, a proportion is established between the total amount of credit and the total amount of gold in the central bank of the country. In Britain the machinery of regulation is simple enough; if too

much credit is issued, more notes are required for additional wages, etc. These are drawn from the central bank, which must increase its gold supply to cover the additional notes required.

At the same time some of the payments made by bank clients who have been given credits by their banks have to be made to foreign suppliers of raw materials, and this probably means a drain of gold from the country. Thus additional gold is required both to cover additional notes and to pay for increased purchases from abroad. But gold is not mined in the vaults of the central bank, and the bank therefore begins to buy gold if possible and also to *restrict* the credit which it gives to the other banks and finance houses, and in this way it also forces them to restrict their credits to clients. Thus, not only the quantity of notes issued, but indirectly also the total of bank credits is restricted by the amount of gold in the central bank of the country.

And this is the point at which the supply of gold in the central bank of each country may, under certain conditions of trade, begin also to have an influence on prices. When trade is good and prices are moving upward more credit money is wanted by the clients of the banks, and this leads to more notes and more gold being required; if at this point the central bank cannot get more gold, credits are restricted and the upward price movement is checked. To some extent also the converse holds good; if the bank has big reserves of gold, it may encourage credits and help prices to rise. But in all cases the fundamental condition is the state of trade; in a situation in which there is no demand for productive credits because the markets are clogged and goods produced cannot be sold at a profit, then the supply of gold becomes a totally irrelevant factor in the internal situation, and if the country concerned also goes off or is forced off the gold standard, the supply of gold becomes irrelevant even for the international trade of that country. It becomes a commodity which can be bought and sold, imported and exported, without the slightest effect on the volume of credits in the country, and, therefore, on prices. Economic factors which are infinitely more powerful than the supply of gold are at work. Are these factors themselves dependent on the supply of bank credits? This question is examined in the following chapter.

III

"MANAGED CREDIT" THEORIES

The existing financial system is almost entirely a credit system. Currency, whether metal or paper, is only the small change of a financial system which is based on a perpetual series of credit transactions. The most important of these transactions are Bank loans, inasmuch as these are the actual *creation* of credit money. The principle on which credit money is created is very simple. In a highly developed banking system such as exists in Britain the overwhelming majority of the financial transactions of the country passes through a small number of banks, and payments are made by means of cheques transferring money from one account to another. In so far as these cheque payments are from one account to another in the same bank, it is obvious that no currency is required, nor has the banker to part with anything at all—there is merely a transfer from one account to another. Even where cheque payments involve different banks—say a payment from a customer of Lloyds' Bank to a customer of Barclay's—it is not necessary for the first to hand over currency to the second in order to make the payment effective. The main banks are working on more or less the same basis and the amount paid, say, by the clients of Lloyds' Bank to the clients of Barclay's Bank, is approximately the same as the amount paid the other way—by the clients of Barclay's Bank, to the clients of Lloyds' Bank. By means of the Bankers' Clearing House, the incomings (cheques on Lloyds' paid into Barclay's) and the outgoings (cheques on Barclay's paid into Lloyds') are set off against one another, so that once again most of the transactions involve only book entries, and it is only any small balance either way that is settled by a cash transfer from one bank to the other. Actually, even this is carried out by means of a cheque on the Bank's account with the Central Bank (in Britain, the Bank of England) which in turn keeps accounts for the other banks.

Actual figures for the year 1930 will help to bring home the very subordinate part played by the currency. The total of notes in circulation averaged £360,000,000; the amounts that passed through the Clearing Houses totalled £43,000,000,000, and in addition there were internal Banking transfers (that is,

payments from one account to another within the same bank) amounting to £23,000,000,000.

Because under this system cash is not needed for the mass of everyday transactions the banks can handle enormous amounts without having to pay out any considerable quantity of cash. They can therefore lend money to clients by opening an account for them—allowing them to draw cheques up to some agreed sum, with the certainty that most of the client's transactions will be either with other clients of the same bank, or with clients of other banks to amounts which will more or less balance the cheques from clients of these other banks to their own clients. In the abstract, there is no limit to the creation of credit money of this kind—the banks could go on lending to their clients (i.e. giving them the right to draw cheques) to any amount.

The theories examined in this chapter are those which regard the volume of credit existing from time to time as a vital factor in determining the state of trade. Some of these theories argue through prices—that as prices (they believe) are the fundamental factor in determining booms and crises, and as prices (they believe) are governed by the volume of credit, therefore crises can be avoided or cured by regulating the volume of credit. Other theories do not depend on the price argument, but maintain that the adjustment of the volume of credit to the existing supply of goods can directly avert crises. All of these theories depend on observed facts in the working of the credit system, and it is therefore necessary to give a brief account of this working.

The opening of a credit by a bank gives its client the opportunity of buying things which he could not have bought without the credit. In that sense, the expansion of credit also expands the possible effective demand for goods which may be at least a temporary relief to an over-stocked market. But banks do not lend money—even credit-money, which has no existence outside their ledgers—without conditions. There is interest to be paid; and there is a date for repayment, or at least an obligation to repay. Because of this, as a rule credits are only created by banks for clients who will use them as capital—in transactions on which they will make a profit, out of which they will be able to pay the interest on the credit. But the return of the loan is also necessary; and to ensure this the banks normally lend money only for current transactions—such as the movement of goods from one place to another where they will be sold, the proceeds being used to pay off the loan from

III

"MANAGED CREDIT" THEORIES

THE existing financial system is almost entirely a credit system. Currency, whether metal or paper, is only the small change of a financial system which is based on a perpetual series of credit transactions. The most important of these transactions are Bank loans, inasmuch as these are the actual *creation* of credit money. The principle on which credit money is created is very simple. In a highly developed banking system such as exists in Britain the overwhelming majority of the financial transactions of the country passes through a small number of banks, and payments are made by means of cheques transferring money from one account to another. In so far as these cheque payments are from one account to another in the same bank, it is obvious that no currency is required, nor has the banker to part with anything at all—there is merely a transfer from one account to another. Even where cheque payments involve different banks—say a payment from a customer of Lloyds' Bank to a customer of Barclay's—it is not necessary for the first to hand over currency to the second in order to make the payment effective. The main banks are working on more or less the same basis and the amount paid, say, by the clients of Lloyds' Bank to the clients of Barclay's Bank, is approximately the same as the amount paid the other way—by the clients of Barclay's Bank, to the clients of Lloyds' Bank. By means of the Bankers' Clearing House, the incomings (cheques on Lloyds' paid into Barclay's) and the outgoings (cheques on Barclay's paid into Lloyds') are set off against one another, so that once again most of the transactions involve only book entries, and it is only any small balance either way that is settled by a cash transfer from one bank to the other. Actually, even this is carried out by means of a cheque on the Bank's account with the Central Bank (in Britain, the Bank of England) which in turn keeps accounts for the other banks.

Actual figures for the year 1930 will help to bring home the very subordinate part played by the currency. The total of notes in circulation averaged £360,000,000; the amounts that passed through the Clearing Houses totalled £43,000,000,000, and in addition there were internal Banking transfers (that is,

payments from one account to another within the same bank) amounting to £23,000,000,000.

Because under this system cash is not needed for the mass of everyday transactions the banks can handle enormous amounts without having to pay out any considerable quantity of cash. They can therefore lend money to clients by opening an account for them—allowing them to draw cheques up to some agreed sum, with the certainty that most of the client's transactions will be either with other clients of the same bank, or with clients of other banks to amounts which will more or less balance the cheques from clients of these other banks to their own clients. In the abstract, there is no limit to the creation of credit money of this kind—the banks could go on lending to their clients (i.e. giving them the right to draw cheques) to any amount.

The theories examined in this chapter are those which regard the volume of credit existing from time to time as a vital factor in determining the state of trade. Some of these theories argue through prices—that as prices (they believe) are the fundamental factor in determining booms and crises, and as prices (they believe) are governed by the volume of credit, therefore crises can be avoided or cured by regulating the volume of credit. Other theories do not depend on the price argument, but maintain that the adjustment of the volume of credit to the existing supply of goods can directly avert crises. All of these theories depend on observed facts in the working of the credit system, and it is therefore necessary to give a brief account of this working.

The opening of a credit by a bank gives its client the opportunity of buying things which he could not have bought without the credit. In that sense, the expansion of credit also expands the possible effective demand for goods which may be at least a temporary relief to an over-stocked market. But banks do not lend money—even credit-money, which has no existence outside their ledgers—without conditions. There is interest to be paid; and there is a date for repayment, or at least an obligation to repay. Because of this, as a rule credits are only created by banks for clients who will use them as capital—in transactions on which they will make a profit, out of which they will be able to pay the interest on the credit. But the return of the loan is also necessary; and to ensure this the banks normally lend money only for current transactions—such as the movement of goods from one place to another where they will be sold, the proceeds being used to pay off the loan from

the bank. The paying off of the loan wipes out that particular amount in the total of credit existing at the time, though of course, the bank will naturally look for new borrowers. If, however, the bank does not look for new borrowers, or refuses to open new credits and even tries to make clients return outstanding loans, the result may be a contraction in the possible effective demand for goods; if production continues new stocks pile up in an already over-stocked market.

Such, in brief outline, is the capitalist economist's theory of the working of the credit system—more credits mean more business, fewer credits mean less business. And, as long as this is stated purely as a description, and without implying that the one is the cause of the other, the statement is unassailable. It is also possible to regulate the amount of credit from time to time, either by agreement between the chief banks, or by controlling measures carried out by the central bank. The chief method of control is to vary the rate of interest charged by the central bank for loans to the money market—if bank rate is raised, less is borrowed, because it is more difficult to find a use for the loan which will show a profit after payment of the higher interest; if bank rate is lowered, more is borrowed. Apart from changing the bank rate, the central bank can also restrict credit by deliberately refusing loans of a type which it normally makes, or expand credit by being a little more ready to accept business; it can also sell Government securities and hold the proceeds, thus reducing the total money available to the market; or it can buy Government securities, paying over money which is thus made available for general business purposes.

In their most general form, the "managed credit" theories argue that a sufficiently bold credit policy—one which was put into effect soon enough, sharply enough and continuously enough—would ensure the adjustment of effective demand to the supply of goods and in this way would prevent the accumulation of surplus stocks and therefore make crisis impossible. It is an attractive theory, at any rate to the financiers; but the curious may ask why, if the solution of economic crises is so simple, nothing has yet been done to apply the remedy. And the most obvious answer to this question is that, since the credit system arose, the remedy has been tried in every economic crisis and has failed.

The functioning of this "remedy" is regular enough, at the various stages of the alternate booms and crises—the so-called trade cycles—which have followed each other in regular

succession during the last hundred years. In a period of rising trade the banks lend generously—production is rising, prices are rising, and every new credit opened means more interest to the bank, while the general prosperity of business seems to be a guarantee that the borrower will be able to pay back the principal and interest. But the very improvement leads to speculation, reckless borrowing, reckless production. In spite of all the credits, which according to the general principle stated above, increase the possible effective demand for goods, over-production begins to show itself; goods cannot be sold, borrowers fail to meet their obligations to the banks, and are finally forced to try to sell their goods at lower prices; a general slump begins, production is checked, unemployment spreads, and crisis develops.

In this process, credit helps the boom forward; but as more and more borrowers, anxious to make something or buy something while the going is good, come to the banks, the interest rate is raised, and as the peak of the boom is approached more and more restrictions are placed on credit. Why? In an effort to get the maximum possible safety for the money lent, because it is already apparent that something is wrong, that there is over-production and the beginning of a crisis (we are not concerned with the effects on movements of gold, which are secondary). Then when the crisis has actually developed, the interest rate is lowered; why? Because there is no longer a demand for credits, because prices have fallen and production no longer pays, as goods cannot be marketed at a profit. It is an indisputable fact that capitalism has never succeeded in checking either the over-production of the boom period or the decline after the boom has turned into crisis. Is this failure due merely to credit not having been "managed" enough, or not having been managed correctly, or is it due to some other factors which make any effective management of credit (effective from the standpoint of avoiding crises) simply an illusion?

If we consider the actual users of the credits given by the banks, we find that they are of two main types: (1) manufacturers or merchants, these may require advances to cover capital extensions (for example, the Cunard Company for its giant liner), or they may want temporary loans to enable them to finance some particular transaction (such as buying raw material, or shipping goods to some distant market); discount houses, handling in the main trade bills of exchange, who are only intermediaries between the banks and other manufacturers

and merchants; (2) gamblers of varying shades of respectability, who require loans to finance transactions on the Stock Exchange or commodity markets. In describing the working of the credit system, it was pointed out that each credit expands the possible effective demand for goods, by placing the power to buy in the hands of someone who would otherwise not have been able to buy. If we consider first the effect of credits placed in the hands of a manufacturer or merchant, we shall get a clearer idea of why the word "possible" is used in connection with the effective demand thus created.

The manufacturer, let us suppose, requires a new credit or a larger credit to enable him to buy more raw materials; this is natural in the upward course of a boom, when the demand for finished products is rising. If he is a cotton manufacturer, he will want more yarn from the spinners, and the spinners in turn will want more raw cotton; more brokers will get busy, more ships will move, more labour will be employed at each stage; if the boom lasts long enough, more cotton may be planted, more cotton ginneries set up, more ships built, more spindles and looms erected and put into operation. A whole series of credits will be opened, for all the additional operations involved.

Here we have a whole series also of new demands for goods, which may extend, in a general boom, through every industry. But in the whole series there is only one section which consists of demands for the final products of industry—that is, the demands (primarily for food and clothing and shelter), of the additional workers brought into employment because of the boom. It is true that the capitalists also may to some extent increase their personal demands for final products, but this effect is relatively insignificant; the greater part of their increased income from the boom is used as capital, with which to increase their future profits. Their new demands for goods are therefore for *means of production* instead of articles for consumption. The greater the total amount of credits given, the greater are the profits of the banks and the profits of the manufacturers and merchants, and these profits are turned into demands for means of production. And technical developments are always so great that, when new means of production are installed, they can produce a greater output with less labour. The result is that the whole process of a boom, helped in its initial stages by an expansion of credit, leads to the rapid extension of machinery and equipment which not only increase output but also reduce the amount of labour required

to produce the increased output. This is a continuous process at all times, constantly limiting the total wage bill and therefore the demand for articles of consumption—the finished products of industry. In a period of boom this process is accelerated; more goods are produced and, after the first stages, the market for articles of consumption becomes glutted, stocks become unsaleable, manufacturers and merchants who have borrowed from the banks are unable to meet their obligations, forced sales begin, with falling prices; production is checked, unemployment on a large scale develops, and the market for consumption goods becomes rapidly narrowed.

And if the banks continue to give these credits, what effect would this have on the level of prices and the course of production? None whatever; the manufacturers and merchants cannot sell their existing stocks, in connection with which large amounts of interest are mounting up; they will borrow from Peter to pay Paul, in order to avoid immediate trouble, but they will not take out new additional credits in order to begin producing again the very articles of which they already have immense stocks. No willingness to lend on the part of banks, no deliberate expansion of credit, can change this.

The following quotation from the evidence given by Dr. Stewart, before the U.S. Congress Committee on Stabilisation (cited by Keynes, *A Treatise on Money*, p. 349), brings out this point:

> "I can see a situation where prices may be declining, yet inventories of commodities were accumulating, and where, if additional credit were granted, it would be used for the purpose of adding to the stock and would mean simply the accumulation of additional stocks . . . so that, rather than use the price index as a test, I would prefer to know what the inventories were, and whether or not production was moving promptly into distribution."

It is true that Keynes does not altogether agree with this; he considers that an extension of credits at very cheap rates would induce further investment and therefore the buying of capital goods, which in turn would mean employment and more trade. But this entirely ignores the fact, brought out by Keynes himself, that the decline in prices in a large scale crisis averages 15 to 25%. It would, indeed, have to be a large reduction in the interest rate to induce further investment at such a time—in fact, the banks would have to pay investors to borrow from them! Moreover, if more investment actually took place and was embodied in means of production, as soon

as these began to be effective there would be a further aggravation of the over-production with which the crisis started.

The *Annalist*, the leading American financial journal, put the essential facts very clearly in its issue of January 16th, 1931:

> "The initial fallacy in relation to low money rates—a fallacy diligently cultivated by the academic economists—is that cheap money is *per se* a direct stimulant to business activity, and of its own virtue a creator progressively of business prosperity. The fact is that in the matter of the price thereof, namely interest rates, "money" (which is for practical purposes bank credit), is like all other commodities—the price (interest rate), rises and falls with the relation of demand to supply. Low money rates, therefore, apart from artificial banking policies, denote lack of demand for credit. And lack of demand from the business world (excluding stock speculation from this category), means that under the given conditions, business men generally cannot see in ventures which would require the borrowing of credit to carry them out, a promise of profits sufficiently large to justify the risk."

The argument that credit expansion in itself can bring an expansion of business reaches the highest pitch of absurdity when it is applied not to a credit policy in general but to currency. It is true that the currency argument is not to be found in the works of reputable capitalist economists, but the following quotation from the leading article in the *Daily Herald* of December 17th, 1931, shows the level to which "Labour's Daily" can rise.

> "Every country sedulously restricts the volume of its currency and of the credit based on it, with the purpose of making it 'more valuable' abroad. The result is that commerce and industry are starved of the money required to keep them going. Usually, for the Christmas trade the Bank puts additional money into circulation. This year it has not done so. That decision has 'improved' the pound a bit. But it is choking the Christmas trade."

The leader writer himself seems to have had a dim awareness that something was wrong, for he ended with a piteous appeal:

> "Cannot we free ourselves of all this muddle-headedness?"

But, like jesting Pilate, he did not wait for the answer, or perhaps the answer was cut out by the Editor. For the real answer to such a question would be that the muddle-headedness of the *Daily Herald* and of the Labour politicians and economists is not something accidental, from which a little clear thinking may free them, but is the only way in which they can present

capitalist solutions under the guise of Socialism. For example, what was the real basis of the Banks' "failure" to put additional currency into circulation in December of 1931? Simply that there was no demand for it; had there been any demand for it, the currency in circulation would have expanded automatically. Why was there no demand for it? Because the increasing unemployment, the wage reductions, the reductions in benefits and the application of the means test had all combined to reduce the normal Christmas buying capacity of the working class. But the *Daily Herald* does not exist to call attention to such facts as these; it therefore argues that the choking of the Christmas trade was due to a decision to "improve the pound a bit," and tries to convey the impression that the poverty in millions of homes at Christmas time in 1931 was simply due to a technical monetary policy which a Labour Government could reverse.

But would it be possible, by "managing" the credit supply at an early stage in the boom, to prevent the over-production which inevitably brings crisis? If credits were restricted and the interest rate was raised sharply in the early stages, it is argued, the acceleration of production which is a feature of a boom would not take place, and therefore also no crisis would arise. And similarly, if a tendency towards a crisis began to show itself, an expansion of credit and a low rate of interest would turn the current back towards good trade. But this line of argument leaves out of account not only the chaos of production under capitalism ("remedies" for which are discussed in Chapter V), but also that general trend towards a reduction in the proportionate demand for articles of consumption (as compared with means of production) which is a permanent feature of the system. It is true that a boom, encouraged by an expansion of credits, quickens the process of piling up profits, which find embodiment in means of production and thereby overstock the market at the same time as they *reduce* the market by increasing output per head and thus reducing the total wages paid. But even without this quickening of the process, the process itself leads to crisis arising not only out of sharply *increased* production but, in certain countries, of production at almost the same level.

And this is the position which has led to the economic crises of the post-war years. The characteristic feature of these crises, which distinguishes them from the crises of the pre-war period, is that they are not the after-effects of a great production boom, but follow after a period of relatively stable production, with

a small rise in some countries only. They mark a glutting of the market by a level of production which in some countries is actually lower than the level before the previous crisis. In Britain, for instance, the "boom" of 1929 hardly brought production beyond the pre-war level.

In such circumstances the machinery of credit is called on not to damp down an over-exuberant boom by credit restrictions, but to support artificially a demand which is constantly being narrowed. Is it possible by continuous expansions of credit to widen the market as rapidly as it is narrowed by additional means of production with improved technique? It must be clear, from what has been said above, that to offer additional credits to manufacturers and merchants is of no avail. They would only (if actually used) quicken production and produce crisis more rapidly. But credits to consumers are not directly open to this objection, and it must be admitted that, in the abstract, continuously expanding credits to consumers of finished products would solve the difficulty of a continuously contracting effective demand for articles of consumption.

Unfortunately, however, continuously expanding credits to consumers are unthinkable, at any rate under the present system, apart from obligations to pay interest and repay principal. For this reason credits to consumers take the form of "instalment buying," and while the delivery of a car or a piece of furniture or a book on credit provides an immediate outlet for goods, expanding the market for the moment, the subsequent instalments which have to be paid reduce the buyers' effective demand for articles of consumption over the following months or years, and thereby directly narrow the market. Any form of consumers' credit which is not an outright gift, without any obligation to pay interest and repay principal, is simply a forestalling of demand, and in essence bears the same characteristics as a boom—it provides an immediate increase of the market at the cost of bringing crisis in its train.

The best known example of credits to consumers on a wide basis is the tremendous growth and encouragement of instalment buying in the United States in the period after the War. An immense credit structure was built up to finance firms to enable them to sell on the instalment system. It cannot be disputed that this extension of consumers' credit did in fact help the expansion of industry for a certain time; but why was it not continued indefinitely? Simply because the consumers, with the instalment liabilities of previous years to meet, became

more and more unable to buy new consumption goods in each successive year. No doubt they would have been glad enough to take them on credit; but the banks realised that further loans would simply amount to gifts; the consumers would never be able to meet the additional instalments involved. Therefore consumers' credits were checked, and the production crisis, although postponed by the previous credits, was all the more violent when it developed.

It will be remembered that, apart from financing manufacturers and merchants, the banks also provide credits for stock exchange operations. Although such credits are not directly related to production, and therefore have no direct bearing on economic crises, they are nevertheless of very great importance in relation to the general question of credit. It was pointed out that, in a period of economic prosperity, the demand for credits rises in order that manufacturers and merchants may increase their profits. In such a period, too, there is an increasing demand for credits also from the stock exchange; company profits are rising and therefore share prices are rising, and speculation in stocks and shares is almost certain to produce large gains. Therefore, a considerable part of the credit issued by the banks finds its way to the stock exchange, and leads to a spiral of mounting prices for shares, absorbing more and more credit as the prices rise. The stock exchange boom continues longer than the production boom, because dividends are still being paid on the boom period; not only is this the case, but when the production boom has passed its peak and the decline has begun, money not needed for the productive process is added to the volume of money already in use on the stock exchange, and, being directed to make further profits, pushes up share prices still higher. The apex of the stock exchange boom is therefore reached later than the point at which the decline in actual production has begun. This was particularly marked in the case of the last stock exchange boom in the United States, and its importance in the general question of credit lies in the fact that "easy money" credits given freely after a decline in production has begun find their way not into production but into speculation, because at such a period, money can only produce gains on the stock exchange.

Governor Strong, in evidence before the United States Congress Committee on Stabilisation in 1927, (quoted by Keynes, *A Treatise on Money*, Vol. II, page 341), put this point forcibly, from the standpoint of the Federal Reserve Bank:

"Two months ago there was some concern felt in the country

as to the extent of speculation in stocks and the amount of credit which was being employed in support of that speculation. . . . On the other hand, we are faced with a clear indication of some decline in the price of farm commodities. Now, if very great concern had been felt about the price of farm commodities, and we felt that the introduction of credit into the market or lowering the interest rate might correct the prices of those individual commodities, what might the consequences be in speculation? There you are between the devil and the deep sea."

The ultimate impotence of all gold and credit theories is acknowledged in the Macmillan report (Report of the Committee on Finance and Industry, p. 93):

"the recent world-wide fall of prices is best described as a monetary phenomenon which has occurred as a result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena."

This is a highly roundabout way of saying that the monetary theories are bankrupt, and that in the world as it exists outside of the minds of the economists of capitalism, there are more fundamental factors which have an unpleasant habit of blowing sky-high all the "solutions" which they advance.

The full examination of these "highly intractable non-monetary phenomena" must be deferred to a later chapter, but their nature has already to some extent been indicated. All theories of price regulation, whether by juggling with gold or by any other method, inevitably come up against the essential facts in the existing system of production in its national and international aspects; the system of production is a system of producing profits; groups, national and international, competing for profits maintain a constant anarchy of production; the attempts to overcome this anarchy through organisation lead only to partial and temporary re-groupings which set up more powerful rivals with deeper and wider anarchy resulting; and all the while the ultimate market for goods produced is narrowing from the very nature of the system.

IV

THEORIES OF "CONTROLLED" AND "PLANNED" CAPITALISM

THE next group of theories to be dealt with admits the anarchy of capitalist production, and proposes "solutions" in the form of regulating capitalism and controlling its activity on the basis of some form of plan. These theories find expression in the writings of economists and publicists of the Labour Party, and in the official pronouncements of the Labour Party; they are also to be found in the programme of the I.L.P., and in the writings of its leaders.

The basis of these theories, on the financial side, is the belief in the possibility of regulating prices, and through price stabilisation achieving an uninterrupted flow of production. The present crisis is represented as the effect of a "bankers' ramp"—the failure of the banks to use the machinery at their disposal to avoid the crisis. Up to this point the theory is identical with the "managed credit" theory which was examined in the preceding chapter; but the Labour Party theory proceeds further, and puts forward the solution of "national ownership and control" of the banks as the way to ensure the effective use of credit for the purpose of maintaining production. The Labour Party election manifesto published on October 10th, 1931, put forward this solution in the following form:

> "The banking and credit system of the country can no longer be left in private hands. It must be brought directly under national ownership and control. The Labour Party further is convinced of the need to form a National Investment Board with statutory powers for the control of domestic and foreign investment.'

The leading article in the *Daily Herald* of October 9th, 1931, indicated the policy which the banking and credit system, after being brought under national ownership and control, should carry out:

> "Labour stands for a sound finance which will neither plunder the poor, nor increase the tribute levied upon the nation by a class."

Here we have the theory of the maintenance of the existing division of wealth between the poor and the rich as the basis essential to prosperity—the poor remain poor, but do not become poorer, while the rich remain rich but do not become richer. We have already seen that such stability is not consistent with the capitalist system: "the tribute levied upon the nation by a class," is not something static, something taken and consumed, but is essentially something growing—the greater part of each year's tribute taken by the capitalist class assumes definite shape as an addition to capital, which is the basis for additional tribute. This is actually implicit in the whole policy; the control of credit, for example, and also the National Investment Board, imply that the capitalist class have continuous new opportunities for investment of newly-won tribute, and that State-controlled credit will be handed out to capitalists in order that they may draw more tribute.

What form of "national ownership and control" is intended? Some hints are given in the pamphlet, *The Crisis*, by Ernest Bevin and G. D. H. Cole. These authors think that the control of the banks is one of the chief ways out of the crisis; they call it socialisation of the banks:

> "We must socialise the Bank of England, as most other countries have socialised their Central Banks. . . . Socialisation, of course, does not mean nationalisation in the old-fashioned sense of taking the banks over. . . . Socialisation means rather the reconstitution of the Bank of England, and of each of the Joint-Stock Banks, as a publicly owned corporation, with directing bodies appointed and removable by the Government. . . ."

These authors cite the B.B.C., and the Electricity Board as examples of "socialised" concerns; the same conception runs through Herbert Morrison's declarations in connection with the London Traffic Bill, the proposal for reorganising the steel trade put forward by the union concerned, and many other proposals put forward by other Labour leaders.

What difference would such concerns make to the economic situation? Capitalism remains, but it is "controlled." Profits continue, but are not "excessive." New investments continue, but these are guided into useful channels. And it is the character of these "useful channels" which explains the object of these public corporations. Their real purpose is: rationalisation. In moving the amendment to the address, Sir Stafford Cripps said:

> "We find ourselves in this position, that our industrial organisation, which sufficed for the competition of the nineteenth century,

no longer suffices in the new conditions. . . . Rationalisation, amalgamation, combination in trusts and other forms, have held the field throughout the whole industrial world. . . ."

The "socialisation" of the banks is to be the basis for the similar "socialisation" of other industries, and the object of the whole process is rationalisation. The Labour Party election address in October, 1931, declared that:

"The Labour Party demands efficiency . . . Labour will insist upon the adoption of efficient methods of production so as to secure good conditions of employment for the workers."

At this point the Labour Party theory merges in the theory of Fordism, and the living wage theory of the I.L.P.—efficiency, rationalisation, brings prosperity. This theory is examined in the next chapter, while in Chapter VI, the full implications of rationalisation are brought out.

In addition to the prices regulation theory and the theory of "socialisation" by control, out of which comes rationalisation, the Labour Party puts forward the theory of planned capitalism. The election manifesto of October, 1931, declared:

"The Labour Party urges the definite planning of industry and trade. . . ."

The Labour Party amendment to the address in the House of Commons, on November 12th, 1931, advocated:

"The planning and co-ordination under public ownership or control of the principal industries, including agriculture and the banking and financial machinery."

IS PLANNED PRODUCTION POSSIBLE IN CAPITALIST BRITAIN?

WHEN the Five-Year Plan of Socialist Construction in the Soviet Union was first heard of in this country, there was the normal healthy reaction from well-fed publicists and politicians in other countries. Such a plan was fantastic; it was nothing but a paper scheme, absolutely impossible of realisation; the industrial proposals were stark nonsense—everyone knew the backwardness of Soviet industry—and as for the agricultural proposals, they were flying in the face of the thousand-year traditions of the Russian peasantry, and nothing more need be said about them.

Slowly, however, news of successes began to trickle through, and by the end of the second year the achievements of the plan began to catch the imagination of those who had ridiculed it in its earlier stages. Its success became so clear that even

the most bitter enemies of the new social order which is being built up in the Soviet Union began to treat the Five-Year Plan as something very real indeed—not fantastic, not chimerical; something that had to be watched, just because of its astounding success. A few faint voices even began to suggest that a Five-Year Plan was rather a good idea, and that it might be tried in capitalist Britain, where everything did not seem to be going quite as it should. And now the conception of a plan for capitalist Britain is to be found in every Labour declaration.

Advocates of a plan for Britain point out that during the War there was a measure of State control over industry in every belligerent country. The way for this had been prepared by the growth of trusts uniting the greater part of whole sections of industry. When planned production at least of certain articles—in the main, munitions and war equipment of various kinds—became essential for the prosecution of the War, State control was easily established over these branches of production, and in spite of incompetence and objective difficulties, the plans for production were carried through with a high degree of efficiency. All that is required—so the argument runs—is to treat the present economic crisis as a state of war emergency, and to reintroduce State planning and control on a wider scale than during the War, gradually extending it until the whole system of production and distribution is working on a plan.

This "solution" of Britain's economic difficulties comes up as a rule in limited forms, as a plan for one or more branches of industry. There are also less "practical" proposals, such as the pamphlet, *A British Five-Year Plan*, whose author, Harry Edmonds, plans for more than mere material results—"it is one of the few right ways to restore prosperity to the State and contentment to the people, and to reform the character and nobility of the British race in the spirit of the great Empire which we have created"; and the Plan for Better Advertising, put forward by Norman Angell and Harold Wright, under the title, *Can Governments Cure Unemployment?* These authors write (p. 140):

> "The remedy which we suggest for this condition, is a governmental control of marketing operations; the adaptation and co-ordination of industry under the direction of the State; a National Plan, involving co-operation between a series of interlocking industries to supply the ascertainable needs of the community, scientific marketing, the education of the consumer by advertisement, and the better organisation of labour."

"The education of the consumer by advertisement," is good; it is reminiscent of the domestic classes run by Titled Ladies during the War to teach the women of the working class how to economise on their household budgets. But "the ascertainable needs of the community," is equally good; it entirely ignores the basic trouble—that "needs" and purchasing power do not and cannot coincide under capitalism. The whole book is childishly superficial, and its only interest lies in the fact that its only really concrete proposal—better advertising—is the best contribution that Lib-Lab-ideology can make towards a solution of the crisis.

We are not concerned, however, with the details of any of these plans, and with the exact limits of their practicability. It is perfectly possible for any trust to make a plan of production and to carry out that plan for a certain period. It is even possible for such a plan to be operated for a certain period by agreement between a number of separate trusts—as for example, the output plan adopted in 1927 between the chief German and French steel trusts. Even within the separate trusts, whether they are national or international, there cannot be any real planned system, owing to the fact that the anarchy of the world market as a whole is continually destroying the basis on which each trust has set up its estimates and plans of production and marketing. No one has ever suggested that these partial and, as experience has shown, always temporary plans can ever prevent general economic crisis. In fact, it is a characteristic of all such plans that their main aim is to limit production—to restrain the various parties to the agreement from producing at their full capacity. As we have seen, it is precisely the restriction of the consumers' market (which results from restricted employment of labour) that leads in the long run to over-production and crisis. Any plan which is a plan of restriction for one industry is therefore essentially a plan of crisis for industry as a whole; to the extent that the plan of restriction covers a number of industries, the resultant crisis must be speedier in coming and deeper when it arrives.

We must assume, therefore, that the Labour Party advocates of a general economic plan for Britain are thinking only of the machinery of trusts as useful for the carrying out of a plan, and not of the actual type of plan which is operated by existing trusts. Their idea, whether consciously expressed or not, is of a general plan covering the whole of production and distribution, and anything short of that which they put forward is merely an instalment, something which they conceive as an

immediate practical step leading to a general plan. Is such a plan possible under the existing system?

In the abstract, it is perfectly possible to imagine the ultimate control of production and distribution being in the hands of a single individual or group of individuals. It is even possible—again in the abstract—to imagine this single control extending not over a single country but over the world as a whole; as history has shown, human imagination is so marvellous an instrument that it is possible to imagine a God whose writ runs not only on the earth, but through the universe. What we are concerned with, however, is whether a single non-supernatural control of this kind is possible under the existing system; whether all production and distribution could be planned even for a single country while retaining the fundamental characteristics of the present system—private ownership of the means of production, wage-labour, and production for profit. We can confine the issue to a single country for the moment, although the problems of international trade must eventually be considered.

The existing structure of producing and distributing industry in Britain is almost incredibly complicated. The 1930 annual return of companies registered in England and Scotland shows a total of 16,263 public limited companies and 95,598 private limited companies, and 250,659 firms registered under the Business Names Act. These concerns vary in size from giants like Imperial Chemical Industries Ltd., to one-man shops. When the idea of central co-ordination for any one industry is put forward, the difficulties come to the front. It is not merely a question of organisation; it is a question of motive. Take the cotton industry reorganisation schemes as one example. In order to safeguard the personal, private interests of the individuals owning the hundreds of factories in the industry, it is necessary to guarantee a share in profits even for those whose factories are shut down under the scheme. This charge remains as a permanent charge on production. But because the whole object of the scheme is to save labour costs by concentration on the best equipped factories, the demand for consumption articles, and, therefore, partly for cotton products, must decline. This will show itself all the more clearly because the price of production of the units produced must cover the agreed rate of profit on disused capital (the closed down mills), as well as on the capital actually producing, and theoretically, owing to the centralised control, it will be possible to restrict production until that price is obtainable. The

centralised control, the planned production, is therefore only possible, on the basis of the existing system, as enforcing a continuous decline in production.

Exactly the same applies to the establishment of centralised control in other industries—the coal industry, with its quota system; the shipbuilding industry, with its destruction of plant (the Shipbuilding Securities Corporation Ltd. was formed in 1931 to buy up shipyards and put them out of action); the woollen industry, with proposals similar to those put forward for cotton; and in fact, for every industry. And though the effect of such a scheme may be disguised when it is applied to a single industry, if the principle is extended to all industries it must clearly produce an immediate and sharp crisis, and the very fate which it was the supposed object of the scheme to avoid. The plan, in fact, would have to be a plan of declining production, or it could not be operated at all. But already, under the system as it exists without planning, declining production is assured.

Actually, experience of the attempts to co-ordinate control in various industries since the War has shown the real difficulty in securing even such co-ordination. In each industry there are large concerns and small concerns. The larger concerns, controlled by numerically small groups, are far better equipped technically than the smaller concerns. Their costs of production are lower, and they are gradually absorbing or squeezing out the small concerns. Through the elimination of the small firms they see a gradually expanding market for their own goods, increasing their own profit. To enter into an agreement with the small firms means to give the latter a permanent share in future profits based directly or indirectly on their position at the moment when the plan comes into operation. Similar difficulties arise when an agreement is considered between two or more competing large concerns in any industry; any such agreement must crystallise the existing shares of production and profit as between these concerns. When such an arrangement is extended to the international field, the forces are even more rigidly opposed. The group which, through design or accident, finds it possible to increase its share of total production and profit, also finds ways of getting round the agreement (such as the setting up of new companies, not parties to the agreement, to exploit a particular field), or denounces the agreement, and the co-ordination ceases to exist. This constant struggle between capitalist groups is the essential outcome of private ownership and the need of markets; the tendency to

trustification has not done away with competition, but has merely substituted more powerful competing groups for the former individual competitors.

The failure of all measures of capitalist co-ordination is well brought out in the following quotation from *The Annalist* of January 16th, 1931:

> "The year 1930 will go down in commodity history as witnessing one of the sharpest price declines that has ever accompanied any depression, the declines coming in face of cartels, price institutes, commodity withholding organisations, all sorts of government aid to prices, and combinations to stabilise prices for export and domestic consumption. Without exception, all have failed finally under pressure of increasing stocks, stocks that could not be sold at the high prices."

But though a co-ordinated plan depending on a series of agreements between competing groups may be chimerical, is it not possible to apply the plan, at any rate so far as a single country is concerned, through the authority of the State? This seems to avoid the difficulties of a voluntary co-ordination, but in fact it merely brings them forward in a more acute form. Either a plan would be adopted by one group controlling the State machine in its own interests, or preliminary arrangements between the various groups would have to be secured. The struggle would break out afresh on a higher plane. In fact, this is the plane on which the struggle is normally carried out between competing groups in different countries; their rivalries, even their very negotiations, are carried on in conjunction with the Government apparatus, so that disagreement and conflict lead to international war.

Let us suppose, however, that some National Government could cajole, induce or force every existing capitalist group into a single plan of production and distribution. What would be the *motive* guiding the preparation of the plan? Without such a motive, without a definite objective, there can be no plan; at every stage in the drafting of the plan, questions of allocation of resources would have to be decided. If it is decided that a million houses of a certain type are to be built, it is a simple technical matter to calculate how many bricks and what other materials must be produced, and to allocate the production among existing suppliers, or if necessary to open new brick-yards. But the decision itself, the selection of a million instead of half a million, or none at all, is not a technical matter; it is a question of the aim which the dictators of the plan have in view. What applies to this single question applies through the

whole range of the plan; each item of the plan, and the plan as a whole, must be determined on grounds which are not merely technical, but political in the widest sense of the term—grounds which express the economic interests of some section of society; inevitably, the interests of the ruling section of society, the makers of the plan.

A plan in capitalist Britain would therefore of necessity be directed towards the strengthening of the most powerful capitalist group; it would be a plan for maintaining and increasing the profits of this group, in other words, for helping forward in a more definite and controlled way the tendency for the rich to become richer, and the poor poorer, which is characteristic of capitalism. Considered purely in its economic results, such a plan would not mitigate but aggravate the tendency towards crisis. Each year's accumulation of profit would be invested by the ruling groups in the form of more efficient machinery by means of which the quantity of labour required would be reduced and the profits of the group increased. (This process would be accelerated by the State-aided rationalisation which is part of the Labour Party's plan.) The consequent reduction in the market for consumption goods could only be balanced by the raising of prices, which could be worked easily by a group which we assume to have absolute control of the plan of production and distribution. The raising of prices would further narrow the market for consumption goods, and more labour would be redundant.

If we take the question of how many houses are to be built each year as a concrete example, the makers of such a capitalist plan would have to ask themselves; will investment of our profits in the form of houses for the working class increase our profits next year? It cannot possibly, because any increase in rent can only diminish the demand for consumption goods generally. In the same way, *any* increase in consumption goods can only have the effect of creating an unsaleable surplus of consumption goods. Profits cannot be increased in that direction. But profits can be increased if the accumulated profit for one year is allocated to improving the means of production—of installing, let us say, a general eight-loom system in the cotton trade. This will reduce the labour costs per unit of product, and show a larger profit on the following year's output if the selling price is maintained at the previous level. And this process—the continuous saving of labour costs through better technique—is the only process which would find expression in each year's plan, because it is the only process

which can increase profits. The character of a plan based on the maintenance and extension of profit—the only motive of a capitalist plan—must therefore be a continuous increase in means of production and a continuous decrease in consumption goods; it would be a plan of continuously increasing starvation for the working class.

But, it may be urged, no one in his senses ever imagined that a capitalist plan could save Britain from crisis. What the Labour advocates of a plan for Britain are driving at, is a plan which, while allowing "reasonable" profits to capitalists, directs production and new capital into channels of use to the community as a whole, or, if you insist on calling a spade a spade, channels which will improve the conditions and widen the purchasing power of the working class.

There is no point at which such a conception can be grasped. A plan which both maintains capitalism and improves the conditions of the working class is a contradiction in itself; it is essentially the same as the conception of a capitalism which is enlightened and progressive, which rejects the advances of its own interests for the more moral allurements of the greater good of a greater number. Why should capitalists agree to a diminution in their actual or potential profits? It is true that such taxes as income-tax and death duty, which in a sense diminish the actual and potential profits of sections of the capitalist class, have actually been imposed by the ruling section of the capitalist class; and that social insurance schemes, involving, in a sense, improved conditions for the working class, have also been adopted by capitalist governments. But with what precise object are such taxes and schemes adopted? To maintain capitalism and to strengthen the position of the most powerful capitalist groups. These, and all measures adopted by a capitalist State, are measures partly of attack (for example, the income tax increases since the War have the effect of transferring profits from the smaller capitalists directly paying the bulk of these taxes, to the larger capitalists, drawing the proceeds as interest on their immense holdings of war loan), partly for defence—the whole system of social insurance is a means of staving off revolution. Such measures are the screen behind which the rich grow richer, the ruling group acquires greater and greater economic power. Measures to improve the conditions of the working class at the direct expense of the interests of the capitalist class are of an entirely different order. It is of no use to argue that the capitalist class can be persuaded that a policy of gradual surrender to the

working class, a plan of production and distribution which gradually reduces the capitalist share in production, and increases the workers' share, is in its own interests—that it is the condition of the continued existence of capitalism. Those sections of the capitalist class which are directly and most severely affected by the present crisis may conceivably be willing to compromise, to sign away their birthright for a series of continuously diminishing messes of pottage. In fact, such a tendency exists; the present crisis has brought many searchings of heart to the lower sections of the capitalist class—doubts, disillusionment in the existing system, interest in new schemes of society, and especially in the new system which is actually in operation in the Soviet Union.

But is this the reaction of the dominant capitalist groups in each country? How can it be? It is true that they are affected by the crisis; but it is impossible for them to imagine even for a moment that the way out of the crisis, so far as they are concerned, lies in any other direction than the further strengthening of their position, the widening of their monopolies, the struggle against rival groups, the struggle against the working class and especially against the working class operating an anti-capitalist system in the Soviet Union. And this is necessarily the line of development of "national" policy in each country; out of this comes the drive towards tariffs, the drive against the working class in every country, the drive against rival groups in which tariffs are merely the prelude to war, the drive against the Soviet Union. The ruling capitalist groups in all countries have turned towards this "practical" solution of the crisis, because it is the only method left to them for the maintenance and extension of their profits.

The question of a planned system of production and distribution in capitalist Britain as in every other capitalist country is, therefore, not a real question. The dominant capitalist groups have always planned, and are constantly striving to make their plans more water-tight, more secure. But just as each capitalist produces not for the sake of the product, but for the sake of profit, so a capitalist plan can only aim at the production and appropriation of profit. Along this line, the only possible plan is a plan of greater profits and greater concentration of profits; a plan which must necessarily, as we have shown, involve greater starvation for the working class. But long before sufficient unity is attained among the rival capitalist groups, the crisis forces on them more urgent issues—the issues which arise from the struggle for their position, at home and

abroad. The plan adopted in practice is not a plan of production and distribution, but a plan of economic war, political war, class struggle. And, as we shall see, the centralised control and rationalisation measures advocated by the Labour Party are precisely the measures through which the dominant capitalist groups wage the fight for their existence.

V

THE HIGH LIFE THEORY

In its most general form, the high wages theory runs: it is perfectly true that the workers cannot buy back, with their wages, all the goods that are produced, and that this must be increasingly true as capital continues to accumulate and operate on a higher level of technique; but this is simply because wages are too low. What is necessary is to induce the capitalists to realise that they have only themselves to blame for the economic difficulties which result from this; they must be made to realise that it is in their own interests to maintain a larger and expanding market, and that this can be done only by increasing wages. Higher wages will enable the workers to buy what they produce, and thus advancing technique will not mean a shrinking market; in fact, if wages are raised high enough the market will expand so rapidly that the unemployed will be absorbed, production and profits will rise, and both capitalists and workers will live happily ever after—a new life, a high life, continuously progressing into ever dizzier heights.

It is an attractive theory, and it has advocates in every walk of life. Its classical exponent among capitalists is Ford; in the Labour movement, Brailsford. It does not appear to have been the basis of any organised Party among capitalists; but in the Labour movement it has been the main plank in the Independent Labour Party platform for the last seven years. The essence of the theory, as expressed by Ford himself, is that, "paying good wages is the most profitable way of doing business." When he wrote this (in *My Life and Work*) he was able to show that, by adopting mass production methods, selling at lower prices, and giving his workers higher wages than had previously been known in the motor industry, he had been able to increase the number of workers employed, and at the same time to increase his profits. The argument was abso-

lutely water-tight; the evidence could not be disputed—at that time.

It is true that, not long after the publication of the book cited, Ford's output began to decline; each year his works were closed for longer periods; the number of his workers declined; and in the present crisis they were persuaded (voluntarily, of course) to accept lower wages, as the only alternative to the continued closing down of production. What exactly had gone wrong with his high wage theory? Was there really some hidden flaw in his argument, some "highly intractable phenomenon" which would not listen to his logic?

In this case, the most immediate and dangerous of the highly intractable phenomena surrounding him was the General Motors Corporation. It listened to his argument, saw the logic of Ford's mounting output and profits, and expressed its sincerest flattery by imitating his mass production methods. Other motor companies followed suit, even in Britain; for a time all were doing well, and the prosperity of all the big motor concerns, coupled with the relatively higher wages paid to their workers, seemed merely to confirm the truth of the Ford doctrine. But all too soon production out-stripped the effective purchasing power for motors; not only Ford, but all motor manufacturers had come up against another intractable phenomenon outside the range of the motor industry itself. Then the blood-letting began; prices were cut; more and more capital was put into new capitalist equipment; technique improved year by year; the number of motors produced increased year by year for some time, but the number of workers producing these motors declined. Then production declined and works were closed down for weeks and months. In the autumn of 1931 the level of motor output in the United States was only twenty per cent of capacity. This low level, it is true, was largely the result of the general economic crisis. But the crisis in the motor industry had in fact developed much earlier; intermittent production in the United States had been a regular feature since 1927. In fact, the general crisis cannot absolve the motor industry of responsibility for its own crisis; on the contrary, the motor crisis must bear a large share of responsibility for the development of the general crisis.

The truth of the Ford argument is that it is simply a description of the normal method of development of a particular capitalist concern. The adoption by one concern of a new technique in production, the saving of labour costs per unit produced, gives it a temporary advantage over other firms in

the industry. The general level of prices ruling in each country represents the average costs per unit plus the current normal rate of profit. If the firm which first applies the new technique makes a considerable saving in labour costs, it is able to undercut the relatively backward firms and extend its sales at the cost of the rival firms. For the time it is able to increase its profits, and where the change in technique gives it an immense advantage over its rivals, it may so increase its sales that it can employ more workers than before, in spite of the fact that each worker produces many more units than before. Where the changed technique involves mass production, the extension of sales allows a further development of the mass production methods, and consequently prolongs the period during which the particular concern keeps ahead of its rivals. More production, more profits, more employment in that particular concern, go hand in hand; all are dependent on a temporary superiority in technique. But do wages also always increase in such circumstances? Was Ford an exception, an intelligent capitalist who saw that his own prosperity and the well-being of his workers were indissolubly linked, or a better man than other capitalists?

No, Ford was no exception; the higher wages that he gave are no indication of his moral character or of his intelligence. Higher wages are merely the normal accompaniment to the development of a particular firm at the expense of its rivals. It is not a question of good will or benevolence on the part of the employer concerned, although it can be freely admitted that in particular cases this may be a factor influencing the exact extent of the rise in wages. But the factor which determines that there shall be a rise (or fall) is the nature of the technical change itself. The current level of wages for any particular occupation and industry relates to the existing technique; a change in technique by one concern, involving greater output per worker, with labour of greater intensity and concentration, involves higher wages as an inducement to the workers to agree to work under the new conditions. But the basis for the higher wages is not merely to induce the worker to continue working at a speeded-up rate; the function of higher wages is to give the workers more strength, more endurance, more steadiness, in order to keep up the extra speed required. Finally, in certain circumstances the question of attracting the additional labour required, especially if it is labour of a special type, may be a relevant factor in determining a rise in wages at a particular concern which has adopted a new technique. All of these

factors apply in greater or less degree to every concern with a technique of production above the average for the particular industry; they are factors which make an increase in wages a necessary condition for the fulfilment of the real aim of the change in methods—the securing of a larger profit. In such circumstances higher wages are not the result of benevolence or enlightenment, but are as essentially bound up with the profits motive which drives all capitalist production as, in another set of circumstances, wage reductions or crises and starvation for millions of workers.

But, it may be argued, even if this is admitted, is it not true that the higher wages given by such an employer do help to widen the market? Is it not true that on Ford's prosperity the shopkeepers, the food producers, the builders of houses, the clothing trades, and all other producers of consumption goods for Ford's workers may also build a little prosperity of their own? Yes, this is certainly true, if we think only of the Ford workers. But if we think also of the workers formerly employed in the rival motor factories, who are now unemployed just because of the Ford success, we get a very different picture. Fewer workers drawing any wages at all; but some of them drawing more, even perhaps much more, than the others or than they themselves did before; the net result cannot be in doubt, because the net saving of labour costs is the essence of the changed technique. The market for consumption goods has declined on balance.

And when Ford is not the only mass producer in the field, when his methods have been copied by all the other important concerns which still survive, when they too have effected enormous savings in labour costs per unit, then the "higher wages" gospel is put into cold storage; the cheaper labour of women and boys is substituted for men's labour, even in the most advanced concerns (this was carried out by Ford himself in 1926; in the case of the British mass producers, who were late in the field, mass production from the start has been largely based on cheaper women's labour); general wage reductions follow, and the total volume of wages paid out by the industry declines from year to year. The theory of high wages is seen as an illusion based on a temporary situation, for a particular concern, while the whole drive of capitalism is rapidly changing the situation for that concern and in doing so destroying the basis on which the theory was built up.

Where the theory goes wrong is in attempting to extend a truth which is applicable to one capitalist concern at one

moment, to the whole of capitalism and for all time. Good wages and good business not only can, but in the normal working of the system must, go hand in hand when the good business is due to relative superiority in technique. When that relative superiority disappears, it takes with it both the good business and the good wages. The theory cannot hold good for capitalism as a whole, because the basis on which the high wages rests is precisely the factor of relatively higher technique. At certain times it may hold good—though in a greatly modified form—for a whole branch of industry, if that branch is in itself new, embodying a new technique. To some extent this was the case with the motor industry; it represented a new, labour-saving mode of travel and transport; one section of it represented a new technique in agriculture. It was, therefore, possible for the industry as a whole, and not only the Ford plant, to increase its output. Mass production was the basis not only for the monopoly of a few groups over an existing market, but also for the widening of the market, the substitution of motors for other forms of transport. The increased total employment in the motor industry—in spite of greater output per worker employed—was possible because it was the condition on which a greater volume of labour could be saved in other directions—in the building and repair of other vehicles, in the breeding and keeping of horses, in the actual processes of transport and agriculture. In such conditions, profits, employment, and even wages could be relatively good in the motor industry; but this relatively good employment and these relatively high wages in the motor industry depended on the destruction of other industries which belonged to a lower level of technique. This is the basis also on which artificial silk won a large part of the field from real silk and even, to a much more limited extent, from the cotton and woollen industries. But in every such case the advance in one industry involves a decline in another, and there is never any simultaneous advance of all industries, for the reason that the only basis of advance is the saving of labour. Not only is there no net advance, but even the partial advance, whether of single concerns or of a whole branch of industry, cannot continue indefinitely. Competition brings prices down, but even at lower prices the limits of the market are reached; crisis within the industry helps forward the general crisis, itself largely conditioned by the labour-saving advance in technique which was the basis of the particular industry's prosperity. Any relative increase in wages which may have accompanied this prosperity is speedily wiped out, and at each step in the

process the total volume of wages—the total demand for consumption goods—is reduced. This is the inexorable law of technical advance under capitalism, which continuously piles up profits in order to make further profits by utilising new and more labour-saving means of production.

It will be as well to quote here some passages from the report issued at the end of 1931 by the International Labour Office, under the title of *The Social Aspects of Rationalisation*:

> "In connection with the motor industry, it is interesting to note the experience of the Ford factory. . . . Between January, 1926, and June, 1927, the number of workmen on the pay-roll fell from 120,275 to 82,890, a difference of about 37,000. These totals take no account of local companies supplying Ford parts, some of which shut down entirely" (p. 260).

For all United States motor establishments for which particulars are available, the average percentage of full-time employment was 82.3 in 1923, and 80.8 in 1928.

An official report on *Recent Economic Changes*, quoted in the I.L.O. report referred to above, shows a fall in the number of workers employed in the U.S.A. from 25,165,000 in 1918–20 to 23,420,000 in 1924–26, accompanied by an 18% increase in total output (27% increase in output per worker).

Other figures quoted in the same I.L.O. publication are the index numbers of the Federal Reserve Board which show the following comparison between 1919 and 1929.

Manufactured products increased by 42%.

Workers employed in factories decreased by 6%. Output per worker increased by 51%. Total wages paid increased by 10%. Wages paid per worker increased by 17%.

In the cautious language of the I.L.O.:

> "One point which seems to be clearly brought out, both by statistics and evidence may, however, be noted; namely, that during the years preceding the economic crisis of 1929 the proportion of wages to value productivity was decreasing."
>
> *The Social Aspects of Rationalisation* (p. 204).

This refers to the United States. A footnote adds:

> "The same fact may be noted in respect of Canada and Australia."

However, the high-wages theory was brought to this country, and the evidence put forward in support of it was partly the Ford argument and partly the relatively higher level of prosperity in the United States generally. The theory had a good

run among benevolent people in the Labour Party and Trade Unions, and eventually emerged in the "living wage" programme of the Independent Labour Party, formulated by a Christmas party in 1924, and adopted by the I.L.P Conference in 1925. Like Johnny Walker, it is still going strong, in spite of the lamented death of its spiritual father, the Ford theory. In its last suit of clothes the programme appears as the Five-Year Plan of the I.L.P.

In his lecture at the 1931 I.L.P. Summer School, as reported in the *New Leader*, of August 14th, 1931, A. Fenner Brockway said:

> "Our plan can be summarised in this way. First we believe that the Government should concentrate all its legislative and administrative powers on raising the standard of life of the people to at least a minimum of civilisation. . . . We do not suggest that this objective can be secured without a fundamental reorganisation of the economic system. Therefore we demand, in the second part of our plan, definite national direction and ownership of the key sources of economic power—finance, industry, transport, agriculture, power, steel, cotton and building. . . . Consumption would increase with production. The third part of our plan is . . . the proposal for the national control of imports and exports."

The living wage theory here appears in the form of a standard of life of the people raised "to at least a minimum of civilisation." In the first part of the 1931 "plan," this aim is to be carried out by the Government through its legislative and administrative powers. In the second part, it is made dependent on "definite national direction and ownership of the key sources of economic power." If "the minimum of civilisation" depends on "national" direction and ownership of the key sources of economic power, then the first part of the plan is quite superfluous (in fact, the second part provides that "consumption would increase with production"). Why then the "minimum of civilisation" to be secured by the Government as a first part of the plan? Because, as was made clear in the original proposals in 1924 and 1925, the living wage, the minimum of civilisation, is really conceived as a first step leading on to the second.

The minimum of civilisation is really to be got by social legislation; family allowances, pensions, and a "living" wage, that is, higher wages under capitalism. And this is put forward really as a first step; a first step that is already a "way out" of the crisis. The "national" direction of industries is only a means to the end of raising wages and the raising of wages is

the way out of the capitalist deadlock. This is made perfectly clear by Wilfred Wellock, M.P., in the *New Leader* of September 25th, 1931, in an article headed "The Capitalist Deadlock":

> "The aim must clearly be to bring into the control of each industry, people who represent the nation, and whose sole purpose must be to run that industry so as to make it possible for the highest wages to be paid, and the cheapest prices to be charged. To this end, interest and profit must be reduced to a minimum. Such a policy would bring about the maximum of prosperity and well-being. . . ."

High wages are to be paid, the cheapest prices are to be charged and interest and profit are to be "reduced to a minimum," and then everything in the garden will be lovely. Here we have clearly the idea of a controlled capitalism, which is allowed interest and profit, but not too much. "Maximum prosperity and well-being," therefore, depend on giving the workers higher wages and giving the capitalists lower profits. Is there any economic justification for this belief?

It is perfectly true that a sudden distribution of additional consuming power to the working class would lead to an immediate extra demand for articles of consumption; but if the proposed increase of wages is put in another form its absolute meaninglessness in the present situation will become apparent. The proposal is virtually to say to the capitalist class: When you are unable to sell your goods, the best way out for yourselves and everyone else, the way which will bring "maximum prosperity and well-being," is to give the workers money with which they will buy your goods, and then you can start production again. It is not difficult to imagine what the reply would be. And the answer would be even more fruity if the suggestion is put to the capitalists in a more permanent form: You are constantly burdened with stocks which you cannot sell; but if you constantly give the workers more and take less for yourself (the Wellock proposal) you will get rid of the overproduction.

Even apart from the implication in the Wellock proposal of a capitalism that was no longer capitalism, the economic basis of his suggestion is absolutely unsound. In each successive turnover and accumulation of profits (even though these were smaller), there would be the same drive to invest the profits in a new means of production of a higher technique, with the same unemployment as a result. But what comes to the surface in the Wellock article is just what is hidden in the Brockway formulation: the belief in a continuing capitalism which can

somehow or other be purged of the economic and social evils of capitalism.

This idea of the maintenance of capitalism, with a slight readjustment of the proportions of national income taken respectively by the capitalists and the workers, is the essential basis of the living wage policy of the I.L.P. The relation between the living wage or "minimum of civilisation" for the people, and the "national" control and ownership which forms the second part of the "Five-Year Plan of the I.L.P." is extremely obscure; in all explanatory articles in the *New Leader*, stress is laid on control, but not on national ownership. Brailsford, for example, in an article on "The Steel Frame of a Five Year Plan," in the *New Leader*, of May 22nd, 1931, welcomes the possibility that:

> "the steel trade will be reorganised as a unit, with regional divisions, under a public utility corporation."

He says that the proposal made by the Iron and Steel Trades Confederation (the workers' organisation) to unify the steel industry under a public utility corporation:

> "is feasible even to-day, for it need not antagonise the Liberals. The contentious element in it is reached only in its proposals for securing the home market."

These proposals are:

> "That the publicly constituted Steel Corporation should have the right to restrict and ration imports and to fix prices in the home market."

On what basis?

> "The prices which it fixes must, needless to say, be compatible both with a living wage and the solvency of the industry."

Here we have, quite clearly, a public utility corporation that will not antagonise the Liberals as the expression of "national" control in the Five-Year Plan. The living wage goes hand in hand with the solvency of the industry—the worker goes hand in hand with the investor in the Corporation—and Brailsford goes hand in hand with the Bank of England.

Such a happy state of mutual goodwill might last in a boom, but when this was followed by crisis, it is difficult to see how all parties could be satisfied. The solvency of the industry depends on the market; under capitalism the market alternates between booms and crisis, and a public utility corporation changes nothing.

In the welter of confused ideas through which the I.L.P. vision of "a minimum of civilisation" finds expression in the *New Leader*, it is difficult to trace any definite conception of the form and manner in which it is proposed that their plan should be operated. Side by side with this "plan" there is every conceivable solution of the crisis, put forward with the strongest possible headlines. A typical case is the article headed, "Half-Measures Won't Do—Fight the Bankers with a Socialist Policy," by E. F. Wise, M.P., in the *New Leader*, of September 4th, 1931.

> "The Bank of England . . . must be changed from an uncontrolled private institution to a Public Corporation, ultimately responsible to Parliament. The joint-stock banks must be brought under control."

Finally, under the heading, "The Socialist Alternative," he argues in favour of abandoning the gold standard, observing that:

> "No other method seems open for setting the machinery of world trade again in motion."

It may seem strange that the abandonment of the gold standard, with its necessary increase in prices, should be advocated in the journal of a Party whose main purpose (in its programme) is to give the workers higher wages; it is even stranger to find that there is "no other method" for getting out of the crisis.

But, in fact, other methods are also advocated in the columns of the same paper. H. N. Brailsford, in the *New Leader*, of June 26th, 1931, in an article headed, "Is a Crash Inevitable?" suggests a way out by a super-tax (presumably because this could be used to increase the social services), or, as another alternative:

> "Simpler still, if we could dictate to the banks, would be a monetary operation by which prices should be brought back to the level that obtained before the slump."

This is the direct opposite of the high wages policy; it is the policy of higher prices and lower real wages. But Brailsford hastens to show that it does not matter what policy he advocates from moment to moment; he adds in a burst of frankness:

> "The intelligent person of a reformist temperament, who dislikes catastrophes and prefers to evade fundamental issues, can always do what I am doing, and propose mild methods of this kind, which might avert the otherwise inevitable crash. They have a certain theoretic interest. One knows very well that they will not be adopted."

The spinning of words, as the way out of the crisis, reaches its climax in the Wellock article, from which one quotation has already been given above. The peroration of the article is as follows:

> "The point to observe is that we are at the entrance to a colossal revolution in the industrial and economic organisation of modern civilisation, and now is the time for the world's social idealists to quicken their thoughts, brace their minds and spirits, and seize this unparalleled opportunity."

It is thus made clear that Brockway's "minimum of civilisation" is to be kept up by a pair of braces, one for the mind, and one for the spirit. Whether the world's social idealists have quickened their thought or not is, at the moment of writing, unknown; but, curiously enough, the crisis continues, and the High Life of Ford and the I.L.P. remains something that is not of this world.

VI

HOW BRITISH CAPITALISM FIGHTS FOR EXISTENCE

In examining the various theories of the crisis and the solutions proposed by capitalist economists and their followers, it has been shown that the central feature of the crisis is over-production in relation to a narrowing market for consumption goods. The narrowing market is itself the result of the accumulation of profits which find embodiment as capital in new means of production, while advancing technique reduces the number of workers employed and total wages paid in operating the new machinery and plant installed. This continuously developing contradiction between productive capacity and consuming capacity is emphasised by the chaotic conditions of capitalist production, in which competing groups push forward their own production in a perpetual endeavour to increase their own separate profits. The trade cycle—the alternate booms and crises of pre-war years, and the far less marked booms and deeper crises since the War—is the inevitable outcome of these factors, and cannot be conjured away by any hocus-pocus of gold and credit or capitalist planning to avoid the contradictions which are inherent in capitalism. Alongside of these general factors—and equally due to the nature of capitalism itself—there are specific factors arising out of the

actual conditions of post-War production, the structural changes and unequal development of capitalism in various countries, changes in the volume and direction of trade, which result in the exceptional intensity of the crisis in certain countries. In the next chapter attention is drawn to the specific factors which make the crisis so severe and lasting, particularly for British capitalism.

Is there then no way out of the crisis? Is there no possibility of efforts to improve the present position of capitalism?

There is a possibility of partial and temporary improvements. This is the "way out" which capitalism is trying to find. There is also another way out of the crisis which does not lead back to capitalism, but forward to socialism; this is the workers' way out. But before dealing with this, it is necessary to examine what the capitalist way out of the crisis involves for the workers.

While the contradiction between expanding productive capacity and declining consuming capacity is the fundamental cause of crises the mechanism through which this operates in each actual crisis is the fall in profits. The fall in prices which results from over-production means that it no longer pays to produce—in other words, production slows down because the only motive for capitalist production is profit, and profit becomes more and more difficult to realise in the existing conditions of the market. The capitalist way out, the effort to improve the position of capitalism, therefore, involves a restoration of profits; if this can be secured, the wheels of capitalist industry will again begin to turn. All the efforts of British Capitalism are, therefore, concentrated on the one problem of the restoration of profits.

All the theories which have been discussed in the preceding pages are merely a theoretical screen, an attempt to justify or cover up the practical steps which the capitalists are taking in their search for a way out of the crisis for themselves at the expense of the workers. These practical steps aim at securing a restoration of profits by direct reduction of wages and social insurance, by rationalisation aimed at reducing the cost of production per unit, and by a protective tariff.

One of the main lines of policy in British capitalism's struggle for recovery is "protection"—the creation of a monopoly market in Britain, in which, sheltered by a tariff wall from the competition of rival capitalist groups in other countries, British capitalism can raise prices, develop mass production methods, and on the basis of the higher profits within its monopoly area and the low costs of mass production, move

outwards against its rivals by "dumping" its products in every foreign market.

At the present time the tariff policy is of special importance to British capitalism as a means of restoring the balance of payments in Britain's relations with the outside world. This was made clear in Chamberlain's statement on Import Duties in the House of Commons on February 4th, 1932, when he emphasised the fact that a favourable balance of £100,000,000 in 1929 had turned into an adverse balance of £113,000,000 in 1931, largely owing to the fall in British income from shipping services and investments abroad—in other words, the fall in the tribute drawn by British capitalism from the exploitation of colonial and semi-colonial peoples. The *negative* aspect of tariffs in this connection (emphasised by Chamberlain) is the reduction of imports; the *positive* aspects (the increase of exploitation of the colonial peoples, and the struggle against rival imperialist groups for a bigger share in the exploitation of foreign and semi-colonial peoples) were outlined by Chamberlain in the diplomatic language which is used to cover up realities: the increased tribute from the workers and peasant producers within the Empire is to be levied through Empire Preference, which, stripped of its patriotic glamour, means the extension of the tariff wall to surround the whole Empire and the widening of the area within which British monopoly capitalism can sell its products at protected prices. The struggle against rival groups in the world market outside the Empire was indicated by Chamberlain in the following form:

> "We mean also to use it (the tariff weapon), for negotiations with foreign countries . . . and we think it prudent to arm ourselves with an instrument which shall at least be as effective as those which may be used to discriminate against us in foreign markets."

In fact, even the apparently negative aim of reducing imports is really a positive aim in the fight against rival capitalist groups; it is to be subordinated to the bargaining for position, the securing of allies in the fight; while the special additional tariffs rising to 100% are to be measures of retaliation against rival groups which use the tariff weapon against British capitalism. No one—least of all the dominant section of British capitalists—can be under any illusions as to what this means. Already measures of retaliation have been taken by a number of rival capitalist groups—the French, with a special discriminatory duty of 15% on British products, and a reduction in the quota of British coal allowed to be imported; the

Poles, with a 250% increase in rail transport rates for imported coal; and increased tariffs in a number of other countries. What is now developing, under the spur of the crisis, is a further intensified competition in the world market. Tariffs and counter-tariffs are only the early forms of a trade war, which will pass rapidly from isolated economic measures to a general active rivalry of policy in every sphere, groupings and counter-groupings, the breakdown of all attempts to secure joint action or compromise between the rival national groups, and finally war.

But tariffs are of service to British capitalism in other ways, apart from their direct effects on international trade and, through imperial preference, on the workers and peasants within the Empire. They are a weapon also against the workers of Britain. In the first place, they will increase the cost of living and decrease real wages. Chamberlain's formula for this is:

> "We desire to fortify the finances of the country by methods which will put no undue burden upon any section of the community."

The reality behind this is that the revenue brought in from tariffs will involve an increase in the price of imported goods, which will be paid by the ultimate consumer (the working class in the main). Chamberlain admits the burden, but presents it as "not undue." In fact, it is suggested that the additional revenue derived from the tariff will be the basis for a reduction in the income-tax—in other words, the tariff will be a means of transferring a burden from the income-taxpayers to the worker. But it is not only the duty on imported products that the workers will have to pay. Because of the tariff wall, because of the protection against foreign competition, the British capitalist will be able to raise the prices of all products made in Britain, and this increase of prices will mean a general reduction of real wages.

Even this reduction of real wages, and the corresponding increase in the margin of profit for British capitalism, is not the only sacrifice which the British worker will be required to pay. The higher profits obtained, and the widening of the home market for British products, are intended to provide the basis for a rapid rationalisation of British industry. The form in which this was expressed by Chamberlain runs:

> "We hope by the judicious use of this system of Protection to enable, and to encourage our people to render their methods of production and distribution more efficient."

This aim (the aim, as we have seen, of the Labour Party), is another line of escape from the crisis for the dominant section of British capitalism: rationalisation. As we shall see later, rationalisation in Britain presents exceptional difficulties, owing to the actual backwardness of large sections of British industry in technique and organisation. But for the moment it is necessary to examine more closely the precise meaning of rationalisation, and to clear away misconceptions as to its real nature.

The term can be loosely used to cover any form of organisation which increases the profits of a particular capitalist group. Thus the planned restriction of production, or the destruction of stocks, may be called rationalisation. The term has also been used to cover such reorganisation as the elimination of middlemen, which merely adjusts the proportion of total profit distributed among various capitalist groups. The real essence of rationalisation, however, is the lowering of labour costs per unit of product; direct wage reductions, extension of hours, changes in the technique of production which eliminate labour, reduction of overtime or other special rates, or speeding up in every form from simple increased "drive" on the workers, to the refinements of scientific management and the Bedaux system. Another side of the same policy is the reduction of labour costs borne indirectly by production; the cutting down of the social services, the reductions in the rate and extent of unemployment benefits, the means test, the reduction in wages of the armed forces, police and teachers.

It is sometimes thought that there are some forms of rationalisation which do not involve the displacement of labour, or the worsening of conditions for the workers.

We have already seen, from the example of the Ford methods of mass production, that technical improvements which reduce costs, reduce labour costs—reduce the total wages bill of the industry or industries affected, even if the individual wages of workers employed on the new method of production actually show an increase. This saving in labour costs is the very essence of what are called technical improvements. But are there not other forms of rationalisation? The rationalisation of the cotton industry, for example, involves not only the "technical improvement" of eight looms per worker instead of four looms—an obvious saving of labour costs—but also concentration of production in the best equipped mills, and specialisation on particular products, instead of a whole range of products being made in a single factory. At first sight these may appear

to be measures of reorganisation which do not involve a reduction of labour costs but are attempts to make the industry more "efficient" in some sense that is not quite clear. But a little reflection will show that the efficiency is really nothing but greater output per worker, which, under the existing system, means a reduction of labour costs by the employment of fewer workers. Concentration of production in the best equipped mills means the selection of mills with up-to-date machinery and equipment, and the closing down of the older or smaller mills in which the output per worker is less. It is just the same with specialisation of production; by specialising on a few products, continuity of output is made possible, and the saving lies in continuous working and the saving of labour in adjusting the equipment for the manufacture of a whole range of products.

Once it is clearly grasped that capitalist rationalisation aims essentially at the saving of labour costs, it becomes easier to understand that capitalism has methods of bringing about this saving of labour costs without substantial improvements in technique, and even without any technical improvements whatever. For example, the slight acceleration of a conveyor belt may secure greater output without additional labour costs, and thus reduce labour costs per unit of output. In some industries, as in many sections of the chemical industry, machinery does not play a very great part, and rationalisation takes the simple form of increased drive on the workers, making two do the work of three. This applies to every form of speeding-up labour. And the saving of labour costs per unit of product applies most obviously and directly in cases of wage reductions and the lengthening of hours.

In Britain, most industries are relatively backward as compared with the corresponding German or American industries. This does not apply in the case of the electrical equipment industry, artificial silk, and to some extent the motor industry. But it does apply to the greater part of the coal, iron and steel, engineering, and textile industries; the proportion of modern pits and works in Britain is much smaller than in the other industrial countries. The rate at which technical rationalisation can be carried out in Britain is relatively slow, partly because of the difficulty of reconciling the conflicting interests of a large number of small producing concerns, and partly because the very fact of Britain's backwardness and relatively greater decline since the War has made it difficult to find the capital required for improvements in technique.

Because of this, the rationalisation measures undertaken by British capitalism are more openly and definitely attacks on the wages and conditions of the workers, although the technical rationalisation—reaching the same result, but in association with a new technique of production—is also being pressed forward.

It is now possible to show the part which tariffs are expected to play in this process, and the results of the process as a whole. It has already been shown that the protection of the home market from the competition of more highly rationalised German and American industry will provide a basis for mass production in Britain and the sale of the products at higher prices. But this also involves greater concentration of production—the rapid elimination of the small producing firms, driven out of existence by the larger firms, which are able, in conjunction with the banks, with which they are associated, to carry out the change in technique to mass production. These changes and the elimination of the smaller producers will bring about a new and rapidly increasing unemployment, in spite of the fact that more British-made goods may be sold in Britain; more British goods may be sold, but they will be made by fewer workers.

The old Liberal argument against tariffs—that imports have to be paid for by exports, and that, therefore, the shutting out of imports must necessarily be balanced by a reduction in exports—is not valid. There is no such direct economic relation between imports and exports; if there were, every country's foreign trade would necessarily balance. The export market, like every other market, can be captured by the lowest bidder; an exporter may find it difficult to bring back the proceeds of his sales abroad if there are no corresponding imports into his country, but he, or other capitalist groups, may want to leave the proceeds in another country as new capital for its industries and trade. In fact, particularly in Britain, the growth of the export trade would require additional imports of such raw materials as are not produced in Britain, while the pressure of rival capitalist groups for markets will force their products even through the tariff wall. Tariffs will not, therefore, shut out imports; and although they may reduce imports, this will not affect exports except as a result of countermeasures taken by other imperialist groups.

But will tariffs, or tariffs and rationalisation together, lead to increased exports? In so far as the costs of production are decreased, and lower prices can be quoted by British exporters

which still leave them their margin of profit, there can be no question that they can secure a greater proportion of the total world market—unless they are met by similar counter-measures from rival capitalist groups.

The following quotation from Keynes, (*Essays in Persuasion*, p.138), states the elementary truth, which applies not only to direct wage reductions but to any reduction of labour costs through the various measures of rationalisation described above:

> "If a particular producer or a particular country cuts wages, then, so long as others do not follow suit, that producer or that country is able to get more of what trade is going. But if wages are cut all round, the purchasing power of the community as a whole is reduced by the same amount as the reduction of costs; and again, no one is further forward."

The dominant capitalist groups in the United States, France, Germany and other countries, are also developing rationalisation, in addition to tariffs and other measures, as a means towards the extension of their export trade in competition with each other and with British capitalism. The competition for markets which is based on rationalisation is fundamentally a competition in exploitation, in which the prize goes to the national capitalist group which is able to eliminate the largest proportion of workers engaged in production, to cut down wages and lengthen hours and establish the greatest "drive" in the factories.

Exactly the same process will be carried on in every colonial area: wage reductions, lengthening of hours, speeding up in every form for the industrial workers, and higher taxation and rents, and lower prices for the peasants, so that they too are forced to lengthen still further their working day, while all the time the conditions of life become more and more intolerable.

This competition for export markets—a competition based on driving down the conditions of the workers and peasants controlled by each national capitalist group—will not be limited to individual price-cutting or other "pure" economic measures. Tariffs and Empire Preference, protection of the British and Empire markets, will be countered by tariffs and other State measures taken by the dominant groups in other capitalist countries. The special additional tariffs against Britain imposed by France, Italy, Poland and other countries, following on the abandonment of the gold standard and the first instalments of tariffs, are only the early forms of a trade war which passes rapidly from isolated economic measures to a

general rivalry of policy in every sphere, groupings and counter-groupings, the breakdown of all attempts to secure joint action between the rival national groups, and finally war. There is no other end to the whole process of tariffs and capitalist rationalisation, because it is a process which can only solve the difficulties of any national capitalist group by increasing the difficulties of other national capitalist groups; each group controls a powerful State machine, and the conflict is from the first a bitter struggle for existence that can only end in another world war.

The way out of the crisis which British capitalism is trying to find, leads, therefore, through rationalisation and tariffs to war. Its success, even partial and temporary, depends on driving down still further the conditions of the workers and colonial peoples, and inducing them to undergo heavy sacrifices ending in the shambles of war. Its success, even partial and temporary, depends on still further restrictions on output, still greater unemployment, still further narrowing of the market for consumption goods. The partial and temporary way out of the crisis for British capitalism, therefore, offers not even a prospect of partial and temporaly improvement for the British workers and colonial peoples, but only greater exploitation, greater misery, leading to deeper crisis in which they will still be faced with the same alternatives: to starve for capitalism, or to rebel against capitalism, cut the Gordian knot of capitalist crisis and move forward to Socialism.

Whether British capitalism finds its way out of the present crisis is, therefore, not a question of "pure" economics. It is not a question of gold and credit manœuvres, fiscal measures, adjustment of reparations and war debts, and the hundred and one other "remedies" put forward by capitalist economists, politicians and publicists. It is simply a question of class power: whether the capitalist class succeeds in driving down the workers and colonial peoples, or whether the workers and colonial peoples succeed in forcing back the capitalist attack, and substituting for the capitalist way out of the crisis, with all its sufferings for the working masses, the revolutionary way out of the crisis.

VII

THE WAY OUT FOR THE WORKERS

THE letter alleged to have been written by the Governor of the Bank of England to the Governor of the Bank of France in the summer of 1931 was undoubtedly typical of what was being thought and said in Board rooms and clubs in all capitalist countries:

> "Unless drastic measures are taken to save it, the capitalist system throughout the world will be wrecked within a year."

The depth of the present crisis, its world-wide character, and its duration are without precedent. The stagnation of production in every capitalist country, the piling up of stocks of primary commodities until they have reached more than two years' supply, the falling trade figures, and the weakening of the financial structure, are the economic features of the crisis of world capitalism. But index figures will not wreck capitalism; the danger to capitalism, the hope for Socialism, lie in the political features of the crisis—the rising tide of revolt against unemployment, against rationalisation, against imperialist oppression. It is this rising tide of revolt which can not only prevent capitalism from achieving its "solution" of the crisis, but can also find the way out for the workers and colonial peoples, and liberate the immense productive forces now held back by capitalism in every country.

The maintenance of capitalist rule can only mean a continued lowering of the standard of living of the British working class; even any temporary and partial improvement of the position of British capitalism, at the cost of terrible sufferings for the workers and colonial peoples, can only enable it to drag along for a brief period, when new and deeper crisis will face the workers with the same alternatives. Capitalism has no further possibilities of development, it is not capable of further developing its productive forces, and only the revolutionary way out of the crisis, the victory of the working class, can lead to a really tremendous development of the productive forces of the country.

In no country is this issue more clear than in Britain. The crisis has revealed the whole internal rottenness of British

Imperialism, built up on the tribute drawn (as interest on investments), from every part of the world. The British domination of world trade, based on the early development of capitalism in Britain, began to weaken when powerful competing groups grew up in Germany and the United States, and passed into definite decline with the growth of other competing groups during the War of 1914–1918. But a large part of the profits accumulated by British imperialism during its earlier period remained as capital in every part of the world, drawing tribute from the sweated labour of workers and peasants in colonial and semi-colonial countries. This tribute was brought to Britain in the form of food and raw materials, which gradually displaced the production of food and raw materials in Britain (the decline in agriculture, the decline in the output of tin and other ores, are the results of this process). The character of British production became more and more parasitic; imports increased, and a large part of these imports was tribute, not paid for by exports. The world crisis of 1931 affected Britain more sharply than any other country, just because of British capitalism's dependence on tribute imports. The fall of nearly £200,000,000 in the income from investments and shipping services abroad, to which Chamberlain drew attention in his statement on Import Duties, meant that the imports could not be paid for, and Britain was driven off the gold standard. But the fall in the tribute meant also the undermining of the parasitic basis of production in Britain; now even capital exports, which provided work for a large part of the engineering and shipbuilding trades, were no longer possible. British exports fell by 50%. With the decline in tribute and in production and trade, the national budget was endangered, and with it the tribute drawn by British capitalism through the war debt.

This situation did indeed call for "drastic measures" to save British capitalism. In the last chapter we have seen the nature of these measures, and the fact that their success or failure depends not on any abstract economic formula, but on the outcome of British capitalism's struggle against the workers and colonial peoples on the one hand, and against the rival imperialist groups on the other. It is necessary, however, to emphasise that the difficulties of British capitalism outlined in the preceding paragraph are not solely the outcome of the present crisis. Because of its early development and its dependence on tribute, British capitalism has retained many of the features of early capitalism in the multiplicity of industria

units and middlemen. In the struggle for survival, in the struggle for the world market, its competitors have a long start. This, and the effort to restore the basis of tribute, involves sharp struggles with the working class of Britain and with the colonial peoples, the rapid deterioration even of their present conditions, as the only means whereby British capitalism can make good its technical backwardness. At the same time, both the working class of Britain and the colonial workers and peasants, already deeply affected by the crisis, are showing a rising militancy against the further sacrifices on which alone British capitalism can find even a partial way out of the crisis, can save itself even temporarily.

This means that a situation is rapidly developing in which the overthrow of British capitalism, by the revolt of the British workers on the one hand, and the revolt of the colonial workers and peasants on the other, becomes more and more clearly the only way out. Each fight against wage-cuts, more looms, the Bedaux system and every other form of rationalisation is a blow not only at the particular employing firm, but at British capitalism as a whole. As the working class becomes more and more conscious that the capitalist way out of the crisis means continuously increasing poverty and unemployment, the resistance to rationalisation will increase and the class struggle will take sharper forms. It is the work of the Communist Party to spread that consciousness among the workers both in and out of capitalist uniform, and to help them to organise and prepare for the final struggle in which the working class will take power into its own hands.

What exactly does this mean? The examples of the Paris Commune and of the Bolshevik Revolution provide the most concrete answer to this question. Capitalism is maintained in power by the forces of the State; but the individuals who make up these forces—soldiers, sailors, police—are members of the working class. The feeding of the capitalist class and its executive officials, the printing of its dope, the manufacture and transport of its weapons are now carried on by the working class. The seizure of power by the working class means just what it says: the transformation of the working class support of capitalism into attack—the destruction of the capitalist State by a mass revolt against it. The exact form of the attack is not something that can be foreseen; but what it is essential to understand is that a revolution which can put an end to capitalism is not a "putsch," a military adventure, although at one point or another it will certainly involve fighting. A

revolution which ends capitalism must be a revolt of the working class. But it must be something more than a spontaneous uprising: the working class must have revolutionary consciousness, determination to end capitalism, and set up its own government to carry through the transition to Socialism; it must have confidence in its revolutionary leaders, in a revolutionary Party, and this Party must be based on the factories and mines, the railways and ports, so that it can really organise and lead the struggle.

What does the overthrow of capitalism, the first work of the revolution, involve? In the first place, it involves the destruction of the capitalist State machine—its parliament, its law courts, its whole apparatus of control over the workers—and the setting up by the workers of their own State machine, national and local: the "dictatorship of the proletariat." In the second place it means the taking over by the workers of the capitalist financial, industrial and commercial machine. It is on this basis that the positive work of the revolution, the building up of Socialism, can be begun.

But is revolution possible in Britain? Are there not objective facts which, in the special position of Britain, make it absolutely impossible for a revolution to be carried through?

In developing revolutionary consciousness among the workers it is necessary to break down a number of illusions, both about the crisis, and about the difficulties with which a Socialist Britain would be faced. All the various gold and credit theories, all the schemes of industrial reorganisation and planned production while capitalism still survives, are merely illusions covering up the realities of capitalism's way out of the crisis, which is through intensified exploitation and imperialist war. These illusions are the stock-in-trade of the politicians and "economists" of the Labour Party and the Independent Labour Party, the stuff of which they build up their "bulwark against revolution." But there are other illusions put forward by these same defenders of capitalism in order to weaken the resolution of workers who have broken through their first bulwark of defence. The second line of defence for capitalism is put forward especially by the leaders of the Independent Labour Party, and those so-called lefts in the Labour Party and Trade Unions who realise the growing consciousness of the workers that revolution is the only alternative to increasing exploitation and suffering. This second line of defence runs: it is true that capitalism offers no prospect for the workers, and that Socialism alone can save them; but in the peculiar economic conditions

of Britain, Socialism could not survive unless the rest of the world had also carried out the revolution. In its bluntest form, the argument is that Britain has only six weeks' supply of food; in its more elaborate form, it is that the need to import supplies of food and raw materials from a hostile capitalist world would soon face Socialist Britain with disaster.

It is important to examine the facts on which this argument claims to be based, not only to see whether it is valid or not, but also to form an idea of what would be the real difficulties facing Socialist Britain, and how they could be overcome. It is undoubtedly true that in Britain, as in every other country, the victory of the revolution will involve a considerable degree of readjustment in the existing organisation of supplies of food and raw materials. This readjustment will be difficult and it will take time to carry through, but the difficulties will be reduced to the extent that they are foreseen and prepared for by the workers. In any case, it is hardly possible to imagine greater difficulties than those through which the Russian workers passed successfully in the first three years of the revolution. Their difficulties in securing food and raw materials were multiplied a hundred times by the need to defend themselves against armed attacks from every quarter, and by the actual destruction carried out by the attacking armies.

But in Britain any limitation of consumption, any shortage of supplies, would be only of an extremely temporary nature, lasting only during the immediate period of struggle for the revolution, while the victory and consolidation of the revolution will lead rapidly to a tremendous improvement in the conditions of the workers. Moreover, even during the period of shortage, the workers will be far better off than during the war: the revolution would abolish the excessive consumption of the capitalist class and its parasites, and the workers and their children would have first claim on the available supplies.

The statement that Socialist Britain would starve in six weeks is simply ridiculous; although complete statistics which would show how ridiculous it is are not published, it is possible to get sufficient information on stocks and sources of food and raw materials to indicate what the real position would be.

Man does not live by bread alone; for the British worker imported meat, tea, coffee and sugar can also be regarded as necessaries. Vegetables and fruit are in a slightly different category; like eggs and milk, it is more possible to adjust the consumption to the supply without immediately serious consequences.

Even in regard to wheat and wheat flour the position is very far from desperate. It is true that current British and Irish production available for consumption is only about twelve weeks' supply; but it must be remembered that it is perfectly possible to mix other grains with wheat to tide over any temporary shortage. During the war years wheat production increased to four months' supply, and the decline since then has been due to high rents and low prices, and not to any unsuitability of soil. It has even been argued that Britain could become almost entirely self-supporting in wheat production if necessary. It is of interest to note that in 1931 there were 20,000 acres under hops in England; in addition, the brewing industry absorbed 500,000 tons of malting barley, grown on 750,000 acres of good land. But what is of greater importance from the standpoint of a revolutionary situation is that the normal stocks of imported wheat and flour are very considerable. Stocks are carried in the granaries at the ports of discharge, at the mills, and again at the warehouses, bakeries and shops, while grain afloat and arriving at British ports at any particular time is also of considerable importance in the total available supply. The *London Commercial Record* of January 15th, 1932, commenting on the fact that the strike of London lightermen had not led to any "scramble for deliveries," observes:

> "The baking trade, in point of fact, is still taking delivery very slowly, many of the shops still having plenty of stuff on hand taken in during the last months of the old year."

This would indicate a stock in the bakeries of about one to two months' requirements; it can hardly be imagined that the stocks at mills average less than a month's supply, while the stocks in the port granaries average two months' supply. Taking into account both British production and stocks at various stages from the granaries to the shops, besides wheat and flour arriving daily at ports of discharge, wheat and wheat flour supplies must average at least six months' requirements, rising to eight or nine months' after the harvesting of the British crop.

Stocks of imported raw sugar in bond at the end of 1931 were 185,000 tons; this was approximately five weeks' normal delivery. The present beet-sugar output in Britain is equal to about three months' supply; in addition, there are the stocks of raw and refined sugar at the refineries, as well as stocks moving into consumption in the various warehouses and

shops. In all, therefore, the total available stocks must average about six months supply at the normal rate of consumption; very nearly a year's supply at the restricted consumption of 1918 (when the total was only 1,110,000 tons). Economies could also be made in certain directions; for example, in 1919, when restriction was still in force, the brewing industry absorbed 51,000 tons.

At the end of 1931 stocks of cocoa were 585,000 tons, or about six months' supply; stocks of coffee were 188,000 tons, or roughly seven months' supply. In both cases these are only stocks at ports; stocks at various stages moving into consumption probably average at least another two to three months' supply.

At the end of 1931, tea stocks in London, at 244 million pounds, were nearly seven months' normal requirements; once again it must be pointed out that two or three months' further supply must be in process of moving from bond into consumption.

In the case of meat, British production averages nearly 50% of consumption (the 1925 report of the Commission on Food Prices put the British proportion at: beef, 52.9%; mutton and lamb, 45.8%; pig meat, 42.7%). In this case also, the British proportion could be substantially raised—in 1910 it was 60%; while in the event of an emergency, a temporary increase could be made by earlier killing. In any case, without any emergency measures, six months' supply would be available from home-grown meat. Stocks of imported meat are not published; but on the basis of other stocks it can be taken for granted that the normal stock of various kinds of imported meat would not be less than three months' and might reach six months' supply. It is therefore safe to assume that there would be no shortage of meat for at least nine months; very slight restriction measures combined with earlier killing would make the supplies last twelve months without any drastic cutting down of herds.

Fish of British taking in 1929 amounted to fourteen million tons; in 1913 it was two million tons more, and in an emergency there is no doubt that even that figure could be easily passed.

While it is not possible to give exact figures for all food requirements, the figures given for several essential foods indicate the general position; that there is normally a stock of the main imported commodities enough for four to six months' requirements, while if British production also is included, food supplies would be enough for seven to nine months' require-

ments. These figures are based on the current level of consumption; if restrictions were placed on consumption, such as the rationing measures taken during the war, and substitutes used to help out types of food which were in short supply, stocks and supplies could probably be extended to cover a year's requirements without serious hardship. This is certainly a very different picture from that given by the opponents of revolution, who assert that a Socialist Britain could be starved into surrender in six weeks.

A very similar position exists in regard to imported raw materials. Among the essential raw materials for production there are some the output of which can be almost indefinitely increased in Britain. The most obvious, of course, is coal: the question of stocks is unimportant on a national scale, and hardly serious even on a local scale, in view of the widely-scattered coalfields and the ease of distribution. The position is different, however, with petrol and other oils. At the present time only about two or three per cent of consumption is supplied from Scottish shale oil; a small proportion comes from gas works and other industries as a by-product, and about 90% is imported. Stocks in 1928 amounted to about three months' supply at the present rate of consumption; since then they have certainly increased. Stocks and present home output together could probably, therefore, provide four months' requirements at the present level. But the output of Scottish shale oils was much higher in 1913; the fall in output since then is due to the low prices of imported oils, and a much higher level of production could be reached if required. Again, a considerable proportion of the petrol consumption is a luxury consumption, partly in the sense that it is used by the rich, and partly in so far as rail traffic, using coal, could replace road traffic in the event of a petrol shortage. There is also the possibility of production from coal, plant for which already exists, but is not used owing to the low price of imported oil. Tremendous economies can also be effected by the use of heavy oils; the building of the engines required could be rapidly developed. In any case, with reasonable control of road traffic and the substitution of rail and sea transport for long distance road traffic, the stocks and supplies of oil would last not less than six months.

In the case of iron-ore and other metals, it is difficult to form any estimate of requirements in the early months of Socialist Britain. If the export trade continues as at present, imports also would be possible; and as the purpose of this

chapter is to see how far Britain could maintain production if isolated from the outside world, it is necessary to eliminate from the present consumption of iron-ore the tonnage required in the making of goods now exported. Moreover, a large part of the steel consumption of recent years has been used in the building of luxury stores, banks, luxury cars, and for other unnecessary purposes. Pig iron produced from ore mined in Britain amounted to 3.9 million tons in 1929, or rather more than 50% of total requirements. In this case, too, output was low because of low-priced imports, and could be very considerably increased. In 1913, Britain produced 5.1 million tons, and this could be taken as the minimum annual supply if output had to be increased. There are no records of stocks of iron ore in Britain, but it must be remembered that scrap iron can also be used. It seems certain, therefore, that stocks and an increased home output could meet British needs for at least eight or nine months; if the needs were limited to essential replacements, probably twelve months' requirements would be covered.

In all other metals considerable stocks are normally carried. The output of the Cornish tin mines could be rapidly increased; between 1873 and 1892 (before Malayan production became effective), their average annual output was over 14,000 tons, and even this figure could probably be passed within a short time. In all important metals, the collection and use of scrap could also help over a short period.

Rubber stocks in Britain during 1931 were well over 100,000 tons, or about fifteen months' supply at the rate of consumption in 1929 and 1930. On the assumption that foreign trade would be suspended during the early months, rubber consumption for exports would have to be deducted; moreover, the present consumption for private cars would be suspended, and the reclaiming of used rubber, developed in the United States as a reply to the British monopoly, could also be applied in Britain to meet any possible shortage.

The position with regard to timber stocks is more difficult to ascertain. They are scattered all over the country in relatively small quantities, and figures of stocks are unobtainable. But it is known that at the close of each summer's navigation—when the winter deck-load rules of the Board of Trade begin to operate—that stocks for at least six months' supply are in the ports. With stocks in timber-yards all over the country, at can hardly be doubted that at least a year's supply is always available—at a time like the present, when all

building operations have been practically stopped, timber stocks are probably much higher.

The normal stocks of cotton in Lancashire are round about one million bales—six months' supply at the present rate of consumption. But approximately three-quarters of raw cotton used is for the export market, and, therefore, the stocks would be enough for two years' requirements if Britain were isolated from the outside world. In the case of wool, British annual production is about 82 million pounds, or 15% of consumption (including wool used for exports), which is estimated at about 500 million pounds. Stocks of imported wool, from the ports to the mills, are not published, but they can hardly be less than four to six months' supply, while the British production is equal to two months' supply. In neither cotton nor wool, therefore, would there be any prospect of raw material shortage during the first year, and the position is even easier in regard to other textile raw materials, such as flax, hemp and jute.

It is therefore clear that, in spite of the fact that Britain is at present largely dependent on imports of food and raw materials, no serious difficulties would arise if Britain were isolated from the outer world for a period of six to nine months, and that if necessary, home production of essential foods (and of some raw materials), could be increased. It must be borne in mind, too, that the estimate of food requirements is based on a relatively generous scale which certainly exceeds, for example, even the present consumption of millions of unemployed workers and their families. Any shortage of food in general or of particular items arising in the first few months would, therefore, not be of a serious character, and the hardships involved would not be anything like the hardships experienced by the Russian town workers in the first three years of the revolution. The idea that revolutionary Britain would be starved into surrender within a few weeks, is therefore nothing but a second line of defence for capitalism—a myth sedulously fostered by those whose one anxiety is to avoid revolution.

The assumption on which the previous argument has been based was that a revolutionary Britain might be entirely isolated from the outside world for a number of months. It was necessary to argue the case on this assumption because it is an assumption made by those who say that a revolutionary Britain could not survive more than a few weeks. But in fact, it is quite certain that a revolutionary Britain would not be

isolated. The revolution in Britain would draw in the active participation of the armed forces; and it would have immediate and tremendous repercussions on the outside world, especially on the working class, and particularly the armed forces, of any countries in Europe where capitalism still survived. It would be a gross libel on the workers in the British Navy to suggest that they would fight less vigorously for a Socialist Britain than for a capitalist Britain; the mutiny at Invergordon must have dispelled any illusions on that score cherished even in West End clubs. But it would be an equal libel on the workers in the navies of Germany and France to suggest that they would fight a British working class Navy; it is far more likely that French and German capitalism would be kept too busy in their own houses to be able to attempt any interference either in Britain or with British sea-borne trade. The revolution in Britain will bring about such a tremendous wave of revolutionary enthusiasm in all countries now under capitalism, that the position of the British revolutionary workers will be made considerably easier in every way. Moreover, the existence of the Soviet Union makes a vital difference for all future revolutions—not because the Soviet Union could or would give military aid in the revolution itself, but because no other country which established a revolutionary government would be completely isolated by a capitalist economic boycott. A revolutionary Britain would be able to maintain and develop the existing trade relations with the Soviet Union, even if all other countries were still capitalist and attempted to establish a boycott in order to hamper the revolution in Britain. This would immensely simplify the problems with which a revolutionary government in Britain would be faced during the first few months of its existence. It would mean that the supplies of food and raw materials, which have been shown to be enough to maintain an isolated Britain for a period of at least six to nine months, would in fact suffice to keep Britain going until adjustments were made in the sources of supply, and the new economic system could be firmly established. The revolutionary workers of the Soviet Union would be able to give tremendous economic help from the very first to the revolutionary workers of Britain; not only in connection with food supplies, but also in supplies of raw materials and the whole range of economic exchanges which would greatly simplify the position of the British revolution in the very first stages of its development, and in the process of economic readjustment. It is hardly necessary to point out that the problems would be

even simpler if a revolutionary Germany or Poland had also been established.

Moreover, apart from the Soviet Union, it is not to be supposed that whatever international capitalism still survived would be able to enforce an economic boycott of Socialist Britain. It must be remembered that one of the first acts of a revolutionary government in Britain would necessarily be the complete destruction of the whole apparatus of imperialist domination in the Empire. There can be no doubt that the Irish workers and peasants would immediately respond by the establishment of their own revolutionary government, and it has been assumed throughout that this would work in co-operation with the revolutionary government in Britain, and that supplies would be pooled between Britain and Ireland. The abolition of imperialist rule in India and of the entire apparatus of force will without question bring with it the rapid growth of the revolutionary movement in India. It will release the forces of the Indian working masses and will enable the proletariat, in conjunction with the peasants, to carry out a revolution against the landlords, and to throw off the yoke of the Indian capitalists, who are now kept in their present position with the aid of British imperialism. It cannot be doubted that the destruction of the apparatus of imperialist domination—the whole machinery of imperialist rule—would rapidly lead to the creation of workers' and peasants' governments in other parts of the present British Empire, and that these would seek active economic co-operation with all Socialist countries, including revolutionary Britain. Far from being isolated, therefore, Socialist Britain would find new allies springing up in every part of the world. The difficulties would be temporary difficulties of readjustment, which could easily be overcome during the period covered by existing supplies of food and raw materials in Britain.

Finally, it is far from certain that Socialist Britain would be isolated even from the surviving capitalist States. It took Soviet Russia more than three years to make any considerable breach in the economic blockade imposed by the imperialist powers; but during the first year the World War was still in progress, and for a further two years armed intervention was carried on in the hope of defeating the revolution. The establishment of a revolutionary government in Britain could not be imagined except in conjunction with such a situation in other imperialist countries, that not only armed attacks, but even a sustained economic boycott would be impossible. It

is idle to speculate whether a revolutionary situation will arise first in any particular country; but it is at least certain that a revolutionary government in any of the chief imperialist States would not and could not be ringed round by hostile imperialist powers with even the passive acquiescence of their workers.

Does all this mean then that the revolution in Britain will come before the revolution in other countries? This is not at all what the present chapter is intended to convey. It aims at meeting the objections to revolution which are based on the assumption that a revolution in Britain would be defeated by the stoppage of the present imports of food and raw materials. It shows that even on the assumption of complete isolation from the outside world no difficulties would arise for a period of six to nine months, and that the period could be extended to a year without any intolerable hardships for the people. It shows also that the assumption of complete isolation from the outside world is itself without justification, in view of the existence of the Soviet Union and the repercussions of the British revolution in the existing Empire, and in other capitalist States. It shows, in short, that the "practical" objections to revolution in Britain are without any serious foundation. And this clears the ground for an examination of how a revolutionary government in Britain would approach the problems of economic reorganisation on a Socialist basis.

VIII

THE ECONOMIC WORK OF THE REVOLUTION

This chapter is not designed to provide armchair Socialists with the outlines of a new Utopia to furnish the stuff of which their day dreams can be made. Nor will it provide the basis for any "gradualist" visions. It is merely an attempt to indicate the main lines of the economic work of a revolutionary government in Britain—a revolutionary government arising from the successful struggle of the working class against the exploiting class, and setting about its economic work as a further stage in the struggle, aimed both at the rooting out of the surviving elements of capitalism and at the establishment of a Socialist basis in Britain's economic structure. An attempt to indicate the problems and the general lines along which they would be solved cannot take the form of a revolutionary plan, which

can only be based on the concrete situation at the time of the revolution. It aims rather at showing that the revolutionary way out of the crisis offers not only the hope but the certainty of economic security for the working class of Britain. It aims at destroying the illusions created by those defenders of capitalism who argue that particularly in Britain, with all its dependence on foreign trade, its marvellous and "delicate" mechanism of finance, Socialism could never work—or, as the "gradualist" defenders of capitalism prefer to put it, Socialism could only work after a long process of adjustment in which at some point the ringing of a bell would mark the miraculous trans-substantiation of capitalism into Socialism.

In an early chapter of *Can Governments Prevent Unemployment?* Sir Norman Angell and Mr. Harold Wright argue that Russia is Russia, but that Britain is Britain; that Russian economy was primitive, whereas British economy is extremely refined:

> "In Russia . . . there was no complicated and delicate organisation of industry to be put out of gear by such dislocations as changes in money values, world slumps, and the rest. . . . But Socialism would be a very different operation in an intricately interdependent, urbanised, and industrialised civilisation like that of Britain, involved as it is in the obtaining of raw materials from the other side of the world, and the sale of manufactures thereto, with varying price levels, gold distribution, stock exchange speculation, bank rates, foreign debts, a deeply rooted individualist economy. To uproot all this and start it growing again in a different way, is a task alike in kind, and in degree, different from that which confronted Russia" (p. 34).

On the previous page the authors represent revolution as the use of a crowbar in a motor car, while "the social, economic, and financial machine with which we are confronted in Britain is more intricate than any motor car." These passages have been quoted, not on account of the authors' importance but because the ideas expressed are typical of the reverential attitude of the leaders of the Labour Party, I.L.P., and trade unions to the existing capitalist machine. It is described as a highly elaborate machine: no one would dream of denying this. A machine which enables a few thousand individuals to live a parasitic life on the labour of several hundred million workers and peasants in Britain and the Empire, and to some extent all over the world, is necessarily highly elaborate. But a crowbar is precisely the instrument which a revolutionary government will use in dealing with this elaborate machine; the workers will not

"uproot it and start it growing again in a different way," but will uproot it and burn the roots. It is characteristic that what the authors specially mention is the apparatus of varying price levels, gold distribution, stock exchange speculation, bank rates and foreign debts; why on earth should the workers want to set "all this" going again, even in a different way?

The fact is that the admirers of the capitalist "social, economic and financial machine" have either never grasped, or are deliberately attempting to hide, the real nature of the capitalist machine. A motor car, a steam hammer, or any other product of human labour may be produced during the epoch of capitalism, or it may be produced under a revolutionary system, as the Soviet Union has shown. The only "product" of capitalism which is directly dependent on the capitalist machine is profit, and the "complicated and delicate organisation" of finance is the machine to facilitate the production of profit and its distribution among the various sections and national groups of the capitalist class. Most certainly the working class will use a crowbar on this delicate mechanism; and the only true remark made by the authors quoted is that the crowbar will effectively smash the machine.

The revolution will carry out, in the first place, the destruction of the capitalist State machine; the capitalist financial machine will necessarily be next on the list. The seizure of the banks and control of all financial operations will be essential to the subsequent control of production and distribution. But the operations carried out by the workers will not be as "delicate" as those now carried out by the banks; there will be no Stock Exchange, no Money Market, no commodity speculation, no flotation of companies, no loans to capitalists, and no investments. The financial machine will have no function in relation to transfers of property, land or buildings, machinery or other means of production, but solely to the distribution of articles of consumption. The banks, run by the present bank workers, in so far as they associate themselves with the revolution, will be brought into a single mechanism which at first will be concerned with the distribution and collection of money tokens, passing out in wages and returning as payment from the retailers to the Workers' Councils for new stocks of food. The development of the functions of the banks into general accounting institutions controlling, by monetary mechanism or otherwise, the distribution of means of production and the wholesale distribution of articles of consumption,

belongs to a later stage of the period of transition towards Socialism.

The control of existing stocks of food and raw materials would be one of the first aims of the revolutionary government and of the Workers' Councils which would replace the existing local authorities and exercise economic as well as political control in their areas. Stocks at the ports and central warehouses would have to be distributed to the various areas under the control of a central commissariat, in accordance with the needs reported by the Workers' Councils. No payments would be required except as between the consumer and the retailer (in money or in ration coupons for articles in limited supply), and from the retailer to the Workers' Council for fresh stocks. Prices would, of course, be fixed, and the Workers' Councils would probably allocate streets to particular retailers in order to simplify control.

But it is in the organisation of new production rather than in the distribution of existing stocks that real difficulties would arise in the early stages of the revolution. All the large-scale means of production would immediately be nationalised (of course, without compensation) and taken over by the workers; the committees set up by the workers at the factories and pits, on the railways and docks, in warehouses, garages, tram depots and gas works and power stations, would take over the functions of management. Their first aim would be to maintain necessary production and essential services to the same extent as before, and to use their initiative to overcome any difficulties that arose. In so far as the present administrative staffs were prepared to help—and in Britain this would be a much larger proportion than was the case in Russia in 1917—many difficulties could be avoided; but in any case the difficulties in industrial Britain will be far less serious than those that the Russian workers were able to overcome.

The maintenance of current production and services, however, would be only a stop-gap measure. At the earliest possible moment each important productive unit would be set its tasks in a general plan of production to meet social needs. How would this plan be built up? In the first instance, every important productive unit which had been taken over by the workers would have to prepare a plan of output based on current production, with details of the raw materials required and the number of men needed to maintain that output on the basis of a six-hour day; details would also be given of the previous buyers of the factory's products or of the channels

through which they reached the market. The plans for the various units in each industry would be co-ordinated by the central council for the industry, and the plans for all the industries would be co-ordinated by the central Economic Council or Planning Department, and at this stage questions of a *political* character would have to be decided before the detailed plans for each industry and each productive unit could be approved or modified.

The first general questions to be settled, on the basis of the existing supplies and possible output of raw materials, would be: How much of the current year's production is to be of articles of consumption, and how much is to be of means of production? In deciding this question, the revolutionary government would have to bear in mind—at any rate until trading relations had been re-established with the outside world—that it was vital to develop as rapidly as possible the production of all foods and raw materials which could be produced in Britain. The development of agriculture would therefore require special attention.

What would be the organisational structure of agriculture following the revolution? In the first place, rent, tithes, mortgages and interest burdens of every kind would be swept away from the small farmer. Secondly, the large farms, at present worked entirely with hired labour, would be taken over by the workers who would run them under the direction of the local Workers' Councils. Thirdly, these Councils would arrange with the agricultural workers and small farmers to bring under cultivation or use as pasturage private parks and preserves and land which has fallen out of cultivation owing to the capitalist burdens on agriculture. These processes would be rapid and far-reaching; they would not be delayed by any barriers of private property, because the whole of the land would be nationalised without compensation, although security would be given to small farmers who were cultivating their land and working in with the local agricultural plan.

The first main aim would therefore be to bring all possible agricultural land into use; the second aim would be to apply the most modern intensive methods to increase the yield. In structural organisation this would imply the merging of small and medium sized farms into larger units, collective farms worked with up-to-date machinery; the implications for the plan of industrial production would be the manufacture of various kinds of agricultural machinery, the erection of suitable buildings, the provision of artificial fertilisers, and the

allocation of transport facilities. One of the chief economic tasks of the Workers' Councils in agricultural areas would be to plan and push forward the extension of land used and the more efficient organisation of production; their requirements of machinery, fertilisers and raw materials, together with the anticipated output surplus to local requirements, would be reported to the central Agricultural Council and through it to the Economic Council.

In the same way the fishing industry, in so far as it is now in the hands of companies, would be taken over by the workers for management through elected committees. The fishing fleets of each port would be organised as single units, and the catch would be at the disposal of the local Workers' Council acting under instructions from a central body. There would be no destruction or use of fish as manure; there would be no unemployment in the industry, no boats laid up in order to maintain high prices and profits for the companies. Existing requirements would be met at low retail prices, and the low prices and improved organisation of production would rapidly open up new demands which would relieve the pressure on other forms of food. The development of the fishing industry would require the allocation in the national industrial plan of more coal, new engines, new boats, nets and other equipment.

Other food industries, such as margarine and cocoa, would continue manufacture on the basis of the existing supplies of raw materials, but their development would be conditioned by the stage reached in the resumption of trading relations with the sources of raw materials.

The textile and clothing industries, producing articles for individual use, would also be developed in order to meet the needs of the whole people. Like all other industries, all important productive units would be taken over by the workers and run by an elected committee acting under the instructions of the Workers' Council for that industry, which in turn would base its instructions on the central economic plan. Each section of the industry would report its requirements of raw materials, machinery and equipment in order that provision for these or for such part of the requirements as it was possible to cover could be made in the plan.

Industries producing raw materials, machinery or other means of production would have their work set for them by the Economic Council, first on the basis of meeting the current requirements of other essential industries, and then of the

special development of particular branches of industry in accordance with the plan. In so far as the raw materials for industry could be produced in Britain, there would be no serious difficulty in the making and carrying out of the plan; no doubt mistakes would be made, requirements would be wrongly estimated, distribution would not always be properly organised, but the immense reserves of energy and initiative set free by the revolution would rapidly correct mistakes and make up for lost time, perhaps even more rapidly than in the Soviet Union. One enormous advantage with which revolutionary Britain would start is that the country is already industrialised, that immense productive forces are standing idle, and that greater production in any particular industry is to a large extent merely a question of utilising more fully the existing factories and plant. This is not to say that Socialist Britain would be content with the existing level of technique in industry, and that no new construction would take place. On the contrary, the revolution will break down the barriers of private property and private interests which, for example, have prevented the efficient use of electricity and are to a greater or less extent holding back the organisation and technique of every industry. It is on the basis of this developing technique that Socialist Britain will be able to raise the standard of living of the workers and give them the leisure and opportunity for cultural development. But the possession of unused productive forces is an immense advantage in the early period of the revolution, because it enables necessary production to be increased rapidly, without a long process of building new factories and installing new plant.

While the fullest possible use and extension of the country's productive forces must be the main economic work of the revolutionary government, the establishment of trading relations with other countries will be a condition of development (even though a revolutionary Britain could live many months, perhaps years if necessary, cut off from the outside world). Reasons have already been given for believing that in fact there will be no absolute isolation of Britain, even for a short period; on the contrary, trade with the existing Soviet Union and perhaps other revolutionary countries will be rapidly developed, apart from trade with any surviving capitalist countries which would be forced to trade with Socialist Britain. How would this trade be organised? What would be the basis of exchange? Before the existence of the Soviet Union there was no experience on which any answer

to these questions could be given, although—in spite of capitalist economists—the questions never have presented any theoretical difficulty. But now there is a wealth of experience which even capitalist economists must admit.

What, in its simplest terms, is the basis on which the Soviet Union's trade with capitalist countries is conducted? In the first place, there is a State monopoly of foreign trade, or to put it in perhaps a more positive form, the Soviet Union's foreign trade is an integral part of each year's plan of production and distribution. Secondly, and arising from the first point, the Soviet Union exports goods in order to exchange them (or their proceeds in cash) for other goods required for its plan. The fundamental aim is exchange, not finding a "market" in the sense in which capitalist exporters approach the question. The difference between these two aims is that while the individual capitalist exporter looks to a foreign market (or the home market for that matter) in order to sell his goods at a profit, the Socialist State exporter looks to foreign markets as places where an exchange can be effected. The basis of the sale or exchange may be good or bad, according to the general conditions on foreign markets. But it is only under capitalism that changes in market conditions create serious difficulties. When the basis of the sale is bad—when the prices obtainable are so low that the capitalist exporter cannot meet his costs of production and clear a profit—then he will stop exporting, and he will stop producing: in practice, he will quote prices which many foreign buyers will not accept, and therefore he gets few orders and slows down production. This is, broadly speaking, the ruling condition in Britain's chief export trades at the present time, and because of it, the workers suffer short-time and unemployment.

But when the basis of foreign trade is exchange, and not the realisation of profit, low prices do not have the effect of stopping production in the country which desires to export and make the exchange. Why should they have this effect? The Socialist State's plan for the current year requires, let us say, forty thousand tons of imported tin. Many industries depend on getting this supply; the whole programme depends on it. It is decided to get it from abroad. The country produces coal, chemicals, steel, and other articles, which it can export if necessary. It provides in the current plan for the export to foreign capitalist countries of, say, enough coal, chemicals and steel to bring in, at current prices, enough foreign currency for the purchase, at current prices, of the quantity of tin it

needs. If prices in the foreign capitalist markets remain unchanged, or if any rise or fall affects equally both the goods to be sold and the tin to be bought, then the plan is carried out as it stands. But if the price of tin remains stationary, and the price of the goods exported falls on the capitalist market, this does not mean that the Socialist State throws up the sponge and returns to capitalism, nor does it mean that production is stopped in the Socialist State and mass unemployment develops. On the contrary, it means that, if anything, there is more employment in the Socialist State which requires the tin; more coal, chemicals and steel will have to be produced and exported. If for any reason that is impossible, then other articles may be set aside for export. And finally, if it is possible within the Socialist State itself to produce the tin required (as it might be in Britain by a considerable development of Cornish production) then plans are made leading up to the country becoming independent of foreign tin producers.

The point to be noted is that in no case is there any closing down of production and consequent unemployment within the Socialist State. Its people may have to work harder to produce more coal for export, or they may have to go short of coal or other articles for a time, but in no case will a slump in the foreign prices for their exports result in less production. Therefore Sir Norman Angell and the whole run of capitalist politicians and economists are simply exposing their own ignorance and lack of understanding when they argue that Socialism would be impossible or particularly difficult to apply in Britain, "involved as it is in the obtaining of raw materials from the other side of the world and the sale of manufactures thereto, with varying price levels, etc."

The fact is that the difficulties in the present exporting industries of Britain are capitalist difficulties, essentially arising from capitalism, and no longer existing when the whole of Britain's foreign trade becomes part of a single economic plan of production and distribution. Far from threatening the complete collapse of Britain's foreign trade, with its imports which are absolutely essential for life and for production, and its exports on which millions depend for employment, Socialism would for the first time place Britain's foreign trade on a secure basis, safe from the terrible consequences which varying price levels and all the "delicate mechanism" of international finance now impose on the workers.

The strength of a Socialist State in trading with capitalist countries was very well brought out in the leading article in

The Times of January 20th, 1932, in connection with the Soviet Union's foreign trade:

> "This is not a case of private trade between the nationals of one country and the nationals of another . . . but of individuals and private firms, each naturally intent on private and immediate gain, trading with a huge State corporation controlling immense resources, and able to play off individual traders against each other, and the traders in one country against those in another."

The Times argues for an international agreement among the capitalist countries as the only method of checking the Soviet Union's trade, but adds in a note of despair:

> ". . . but it would be difficult at any time to reach an international agreement on such a subject, and it is doubly so at present when economic distress and economic rivalry make it easy for the Soviet monopoly to set rival industries and rival nations bidding against one another to secure its orders."

Such admissions by *The Times* are effective replies to the capitalist propaganda about the terrible plight of a Socialist Britain when it had to face up to the need to continue exporting and importing.

There is therefore no difficulty whatever in a Socialist Britain's foreign trade with any surviving capitalist countries. It has already been pointed out that the revolution in Britain would give an immense impetus to the revolution in every country, and particularly in the countries now dominated by British imperialism. The economic bearing of this is of vital importance. Immediately on its formation the revolutionary government of Britain would have ended not only Britain's political and military domination of India and other countries in the Empire, but also and above all every form of British imperialist exploitation. In concrete terms, in relation to India, for example, there would be no longer the tribute of some £50,000,000 annually in the form of rice, tea, and other products, representing the interest and dividends on British capital apart from any natural exchanges of goods between the two countries. There would be no longer the whole apparatus of British rule—military and civil—to be maintained by India's production. There would no longer be the policy of holding back India's productive forces in order that British imperialism could continue to draw tribute from India. On the contrary, a revolutionary Britain, relieving India from all forms of British imperialist tribute, would immediately set at the disposal of India the specialised productive forces of Britain.

Machinery and industrial products required by India for her own industrial development would be sent by Britain to India, not as "investments" to form a basis for future tribute, but in exchange for the tea, rice and other commodities which India produces and Britain needs. It is clear, of course, that as rapidly as possible all Socialist countries would be united in a single plan of Socialist trade, in conjunction with the plan of Socialist construction. It may be looking too far ahead to think of the single economic plan which would co-ordinate production and distribution in a number of Socialist countries, but at any rate it is necessary to show the basis on which trade—exchange of products—would be carried on between Socialist countries.

It is obvious that world prices in capitalist markets could not be a satisfactory basis of exchange between Socialist countries; Socialist workers could not subject each other to the effects of capitalist crises and financial speculation. The only satisfactory basis, the only basis which is economically sound and does not involve the exploitation of one group of workers by another, is exchange of labour for labour. The calculation of the average quantity of labour used in the production of any classes of articles would be relatively simple in a Socialist State working on a single economic plan. There would, of course, be various levels of technique and various degrees of intensity of labour, but these would be smoothed out in the average, whether this was ultimately expressed in the form of money or of labour units. Such trade would be absolutely independent of any outside capitalist fluctuations of prices and production; it would be firmly based on the whole economic plan in each of the Socialist countries concerned, and it would be continuously developing with the continuous rise in the standard of living and culture in these countries.

It is particularly in Britain that the victory of the revolution would open up immediate prospects of a rapid improvement in the conditions of the workers. Precisely because of the features connected with its early development and its parasitic character founded on the exploitation of the Empire, British capitalism has held back the productive forces of the country perhaps more continuously and decisively than capitalism in other countries. In many cases the holding back of development is already well known. Take, for example, the coal industry: in one Government Commission after another the actual obstacles to reorganisation have been brought out—the ground landlords' claims to royalties and wayleaves, the

barriers at every point imposed by private ownership and vested interests in the mining, distribution, and use of coal. In industry after industry the same barriers exist, while apart from the special barriers in each industry there is the burden of landlordism, royalty, the church, and the whole of the rentier and parasitic elements which have grown up on the basis of imperialist exploitation.

The victory of the revolution would sweep all these barriers aside. It would not only abolish the waste of social resources involved in maintaining a parasitic class in luxury, but would clear the ground for a rapid development of productive forces and a rapid rise in the material conditions of all sections of workers. The Socialist reorganisation of industry would involve a huge increase in the output of means of production, which would bring into activity whole sections of industry, especially heavy industry, now suffering from chronic depression.

This increased output of means of production, bringing hundreds of thousands of workers into employment immediately, would stimulate into activity also the industries producing articles of consumption. The abolition of the parasitic elements in society, the sweeping away of rent, interest and profit and of the whole costly apparatus of capitalist privilege and domination, will make possible higher wages from the outset, and the increased Socialist production will rapidly increase wages still further, at the same time reducing the hours of work and making possible an extension of all forms of social service and cultural development.

It has already been pointed out that side by side with the victory of the revolution in Britain must come also the rapid march to victory of the revolution in other countries, especially those now dominated by British Imperialism. In these countries, too, the revolution will bring an immense expansion of productive forces and the raising of the whole standard of living of the working masses in town and country. Thus the basis will be laid for the real growth of Socialist exchange, conditioned by and also helping forward the rising standard of conditions in each of the Socialist countries. The development of relations between Soviet Russia and Soviet Turkestan is typical of such mutual assistance, in which the industrially advanced country helps forward the industrially backward country, not to exploit it but to help its development so that both countries make rapid economic progress.

A further fundamental point is that, in the system of planned

production, the total of articles of consumption produced in Britain (or imported) would be brought into direct relation with the total consuming capacity distributed among the people in the form of wages, allowances, etc. Effective demand for articles of consumption would equal the output and imports of articles of consumption, and would increase with the increase of production secured by advancing technique. "Over-production" would be impossible, and along with it unemployment would disappear. Socialist ownership and planned production are the *only* conditions which make this possible.

A few years ago such conceptions as these might have been dismissed as utopian. But now there is the positive example of the Soviet Union to show not only that Socialist ownership and planned production will "work," but that they are capable, in the face of a hostile capitalist world, of raising in a few years the productive level of a backward country to a level which compares favourably with that of advanced industrial countries. In many ways the problems of a Socialist Britain would be less difficult than those which have been successfully solved by the workers and peasants in the Soviet Union. The very existence of the Soviet Union, and the fact that Britain now has immense productive forces lying idle, are favourable factors which have already been mentioned. Another factor of great importance is that Socialist Britain would have all the experience of the Soviet Union to draw on—its methods of administration and workers' control, its methods of drafting and operating the plan of production and distribution. Then the shortage of skilled and technical workers which hampered development in the Soviet Union will present little difficulty in Britain; the attitude of numbers of technical workers in Britain has already been profoundly affected by the recognition of what has been achieved in the Soviet Union. And finally, the advance of revolutionary consciousness in every part of the world since 1917, and the world crisis of capitalism, are creating a situation which will bring revolution on to the order of the day, and the emergence of a revolutionary Britain, with the immediate liberation of the colonial peoples of the present Empire, would be a hammer blow that would shake capitalism to its foundations and free the forces of the world revolution.

In every aspect of economic life—production, distribution, consumption, foreign trade—Socialist Britain would not only "work," but would work in such a way that it would be

no more crises, no more unemployment, and instead of these there would be a rapid growth of production and rise in the workers' conditions. The destruction of capitalism is the destruction of the cause of crisis and unemployment, the cause of starvation and hopelessness for millions of workers and their families. As long as the "delicate mechanism" of capitalism is allowed to function, the only way out of each crisis is further suffering for the workers. When the workers in Britain and the colonial peoples make up their minds to apply a crowbar to the machine, no power on earth can stop them. All the "ways out" put forward by the capitalists, the screechings of the gold and credit theorists, the pitiful bleatings of the "Socialists in Our Time," are simply so many devices to prevent the working class from thinking of its crowbar. Those who understand this will help to make the working class realise its power, will help it to prepare and organise the revolution which is its only way out of crisis, suffering and war.